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## BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION  
OF CHAPARRAL CITY WATER  
COMPANY, INC., AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN  
ITS RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02113A-07-0551

MOTION FOR APPROVAL OF  
INTERIM RATES

(EXPEDITED ACTION REQUESTED)

Chaparral City Water Company, Inc. ("the Company") hereby moves for an order from the Arizona Corporation Commission ("Commission") approving the immediate implementation of interim rates. As explained below, and in the supporting testimony filed with this Motion, this relief is necessary to prevent the continued erosion of the Company's financial condition, a condition that is worsening due to the significant delays the Company has experienced in obtaining rate relief. The interests of the Company and its customers are being threatened by this mounting financial crisis. The interim rates sought herein would slow the deterioration of the Company's financial condition, yet be subject to refund, pending a final order of the Commission setting permanent rates in this case.

The interim revenue increase sought by the Company is \$1,349,246 (18.12 percent) over the Company's 2006 adjusted test year revenues. This increase would produce a return of 7.6 percent (which is the weighted average cost of capital approved in Decision No. 68176 (Sept. 30, 2005)), on the Company's interim original cost rate base of

1 \$21,599,023. The proposed interim monthly bill for a 3/4-inch metered residential  
2 customer using an average of 8,450 gallons would be \$38.34 – an increase of \$5.97, or  
3 18.43 percent over present rates.<sup>1</sup> Notably, this is less than half of the increase the  
4 Company is seeking in its pending rate application.

5 This Motion is supported by the following Memorandum of Points and Authorities.  
6 It is also supported by the testimonies of the Company's District Manager, Robert  
7 Hanford ("Hanford It."), and its rate consultant, Thomas J. Bourassa, ("Bourassa It."),  
8 filed concurrently herewith. The Company's proposed interim rates are set forth in the  
9 interim H Schedules included in the schedules attached to Mr. Bourassa's testimony in  
10 support of this Motion.

#### 11 MEMORANDUM OF POINTS AND AUTHORITIES

#### 12 **I. OVERVIEW OF THE COMPANY'S RATES, RECENT RATE** 13 **PROCEEDINGS AND CURRENT FINANCIAL CONDITION.**

14 The Company's current rates were approved by the Commission in Decision No.  
15 68176, and were based on a 2003 test year. During 2006, the first full year the current  
16 rates were in effect, the Company earned a return of only 3.76 percent on its original cost  
17 rate base. See Bourassa It. at 3, Interim Schedule A-1. Worse yet, the average annual  
18 return on equity during 2006 was only 1.93 percent, compared to the 9.3 percent return  
19 authorized in Decision No. 68176. *Id.* at Interim Schedule A-2. Unfortunately, the  
20 Company's return on equity continues to erode – during 2007, the Company earned a 1.74  
21 percent return on equity. See Hanford It., Exhibit A.

22 As a consequence of its deteriorating earnings, on September 26, 2007, the  
23 Company filed the instant rate case, seeking the approval of new rates based on a 2006  
24 test year. The application was found sufficient one month later, and Staff immediately  
25

26 <sup>1</sup> The proposed interim monthly bill for a 1-inch metered residential customer using an average of 10,095 gallons  
would be \$57.00 – an increase of \$8.86, respectively, or 19.41 percent over present rates.

1 commenced discovery. After the Company answered well over 100 data requests, this  
2 case was stayed at Staff's request pending the outcome of the remand proceeding arising  
3 from the order of the Arizona Court of Appeals, *Chaparral City Water Co. v. Ariz. Corp.*  
4 *Comm'n*, No. 1 CA-CC 05-002 (Feb. 13, 2007).<sup>2</sup> Procedural Order dated January 22,  
5 2008. Notwithstanding the Company's plea for prompt resolution, the remand proceeding  
6 dragged on for more than one year and finally concluded nearly 18 months after the Court  
7 of Appeals' decision was issued. Decision No. 70441 (July 28, 2008).

8 The Administrative Law Judge moved quickly to convene a procedural conference  
9 in this rate case following the remand proceeding. Again, however, the Company's  
10 proposed expedited procedural schedule was rejected. See Procedural Order dated  
11 July 24, 2008. As a consequence, the Company will be unable to obtain authorization to  
12 implement permanent rate increases until sometime in 2009 – more than 18 months after  
13 the Company's rate application was filed and more than 30 months after the end of the  
14 2006 test year. Meanwhile, the Company's operating expenses are continuing to increase  
15 and capital projects are being delayed.

16 Operating expenses have increased by over \$1 million between the last rate  
17 decision and the current filing, an increase of roughly 19 percent. Hanford It. at 4. The  
18 Company's three largest operating expenses are purchased water, purchased power and  
19 labor. Since the current rates were set, the costs to purchase Colorado River water from  
20 the Central Arizona Project ("CAP") has increased from \$103/ac-ft in 2003 to \$127/ac-ft  
21 in 2008, a 23.3 percent increase. *Id.* at 6. Costs for CAP water are expected to increase  
22 by an additional 12 percent in 2009. *Id.* The Salt River Project, which provides power  
23 within Fountain Hills, has steadily increased its rates during the past four years, and has  
24 recently implemented another 3.9 percent increase. APS, which provides power for the

25 <sup>2</sup> On July 7, 2008, the Company filed a Notice of Implementation of Interim Rates Pursuant to A.R.S. § 40-256.  
26 After meeting with Staff, on July 11, 2008, the Company filed a Notice of Postponement of Implementation of  
Interim Rates Pursuant to A.R.S. § 40-256.

1 Company's CAP water turn-out and pumping station in Scottsdale, has received several  
2 rate increases from the Commission since 2003, including a 4 percent rate increase in  
3 2007, and filed an application that seeks an increase of more than 20 percent earlier this  
4 year. These increases in key operating expenses, as well as increases in wages and  
5 salaries and other operating expenses, have caused the Company's earnings to steadily  
6 decline, notwithstanding the rate increases granted in Decision No. 68176.

7 At the same time, the Company has invested several million dollars in additional  
8 capital improvements to serve its customers. *Bourassa It.* at 4; *Hanford It.* at 5-6. The  
9 Company has been unable to earn a return on that investment due to the delay in  
10 completing this rate case. Moreover, the Company had more than \$2.2 million of  
11 construction-work-in-progress at the end of the 2006 test year and, during 2007, it  
12 invested an additional \$2.8 million in new plant, which are not included in rate base in  
13 this case. *Bourassa It.* at 5. And the need for capital investment to ensure safe and  
14 reliable water service continues: The Company's current capital budget calls for  
15 additional capital investment of \$6.9 million through 2010. *Id.* Plainly, it is not in the  
16 public interest to force the Company to operate without needed rate relief and without an  
17 opportunity to earn a fair rate of return on its utility plant.

## 18 **II. ARGUMENTS SUPPORTING INTERIM RATE RELIEF.**

### 19 **A. The Legal Basis For Approval Of Interim Rate Relief.**

20 Nearly 100 years of decisions by Arizona courts have affirmed the general theory  
21 of utility regulation that total revenue, including income from rates and charges, should be  
22 sufficient to meet a utility's operating costs and allow the utility and its stockholders a  
23 reasonable rate of return on the utility's investment. *E.g., Scates v. Ariz. Corp. Comm'n*,  
24 118 Ariz. 531, 533-34, 578 P.2d 612, 614-15 (App. 1978) (citations omitted). "[R]ates  
25 cannot be considered just and reasonable if they fail to produce a reasonable rate of return  
26 or if they produce revenue which exceeds a reasonable rate of return." *Id.* at 534, 578

1 P.2d at 615. The Company's current rates fall short of this standard because the Company  
2 does not have an opportunity to earn a reasonable return on its investment or to recover its  
3 operating costs. The obvious remedy – the implementation of new rates – is simply taking  
4 too long, as the record in this case clearly shows. This leaves the Company with two  
5 choices: Either attempt to operate indefinitely without earning a fair return on its  
6 investment in utility plant or cease operating altogether, which is in effect no choice at all  
7 given the Company's obligations as a public service corporation.

8 Because the Company is required to provide safe and reliable service to customers  
9 and landowners within its service territory, the Commission has a duty to protect the  
10 interests of the Company and its shareholder. *See Arizona Community Action Assoc. v.*  
11 *Arizona Corporation Comm'n*, 123 Ariz. 228, 599 P.2d 184 (1979). Interim rates are a  
12 remedy available to the Commission when the normal ratemaking process has failed to  
13 ensure that a utility has a reasonable opportunity to recover its operating expenses and  
14 earn a fair rate of return. It has been held that interim rates are appropriate when the delay  
15 in implementing new rates leads to financial harm to the utility. *Arizona Corporation*  
16 *Commission v. Mountain States*, 71 Ariz 404, 228 P. 2d 749 (1951). In *Pueblo del Sol*  
17 *Water Company v. Arizona Corporation Commission*, 160 Ariz 285, 772 P. 2d 1138 (App.  
18 1989), the court upheld the Commission's power to approve interim rates pending the  
19 setting of final rates. In that case the Commission had delayed a rate case in order to  
20 assess the impacts of federal tax legislation, obtain additional information on actual  
21 operating expenses, and provide sufficient time for the case to be tried. *Id.* at 286, 772  
22 P.2d 1139.

23 The Arizona legislature has also recognized the need for timely completion of rate  
24 cases and that interim rates are an appropriate remedy when ratemaking is delayed. *See*  
25 A.R.S. § 40-256 (imposing deadlines on the completion of rate cases and allowing utilities  
26 to implement interim rates when those deadlines are not met). The Commission's rules

1 authorize the implementation of interim rates when a rate case is not completed in a  
2 timely fashion. A.A.C. R14-2-103.H.11.h. Finally, even Staff appears to believe the  
3 Commission has ample authority to approve interim rate relief in this docket. It was Staff  
4 that urged the Company to postpone its effort to implement rates pursuant to A.R.S. § 40-  
5 256 and to seek such relief from the Commission instead.

6 In short, the Commission clearly has the authority to authorize the implementation  
7 of interim rates, subject to refund, pending the completion of a rate case. The only  
8 question that remains is whether this authority should be exercised here.

9 **B. Interim Rate Relief Is Warranted.**

10 Given the Company's dire financial circumstances, and the fact that it has  
11 diligently sought rate relief in this case, it is difficult to think of a reason not to approve  
12 the interim rates requested by the Company. Every legitimate argument supports approval  
13 of interim rate relief.

14 First, the Company's financial condition is obviously deteriorating while it waits  
15 for a decision in this case. Its operating expenses have increased by 19 percent – by more  
16 than \$1 million annually – since the test year supporting the current rates. Hanford It. at  
17 4. Further increases in key expenses are anticipated within the next year. *Id.* at 6.

18 Second, the Company's rates are inadequate to provide a reasonable return on its  
19 utility plant. The Company's rate of return on its original cost rate base during the 2006  
20 test year was 3.76 percent. Bourassa It. at 3. This was the first full year in which the rates  
21 approved by the Commission in Decision No. 68176 were in effect, a year in which the  
22 Company earned a 1.93 percent return on equity despite the Commission's approval of a  
23 rate of return of 9.3 percent in that decision. Bourassa It. at 3.

24 Third, the Company has made millions of dollars of additional capital investment  
25 to ensure reliable service to its customers. That investment is now stranded as a result of  
26 the delay in processing this rate application.

1 Fourth, the conservative interim revenue increase sought herein will, if  
2 implemented expeditiously, help staunch the earnings erosion faced by the Company.  
3 Despite the severe reduction in its return on equity, the Company continues to provide  
4 safe and reliable water utility service in compliance with all federal and state regulation.  
5 Interim relief will help to ensure that the Company can continue to do so pending the  
6 outcome of this rate case.

7 Fifth, while the Company and the Commission have disagreed over the issues on  
8 appeal and remand following the Court of Appeals decision in *Chaparral City Water Co.*  
9 *v. Ariz. Corp. Comm'n*, and regarding the legal basis for staying this rate case, there can  
10 be no legitimate claim that the Company is at fault for the delay it has experienced in  
11 obtaining rate relief. The Company has simply pursued its legal rights. The length of  
12 time the remand proceeding took was largely outside the Company's control.

13 Sixth, while the stay was in place in this docket, Staff and RUCO were authorized  
14 to continue discovery. As of this filing, the Company has responded to well over 250 data  
15 requests and has provided Staff and RUCO with the information those parties will need to  
16 evaluate this application. Again, the Company's rate application has been pending since  
17 September 2007; it is not a newly filed application that will require extensive evaluation.<sup>3</sup>

18 Seventh, ratepayers will continue to benefit from a utility that has sufficient  
19 revenue to pay its operating expenses and make necessary investment in utility plant.  
20 They will also benefit from investors that will receive the message that while permanent  
21 rate relief has taken longer than anticipated, temporary help has arrived. *Bourassa It.* at 4.

22 Finally, no harm will come to customers. Certainly, ratepayers do not have a  
23 protectable interest in delaying justifiable rate increases as long as possible, forcing a  
24 utility to subsidize expenses and earn a confiscatory return on its rate base and equity

25  
26 <sup>3</sup> The Company will certainly respond to additional discovery requests concerning this application in an effort to aid  
the efficient prosecution of this request for interim rate relief.

1 investment. Moreover, the interim rate increases sought in this case will be subject to  
2 refund in the unlikely event the final revenue requirement set by the Commission is less  
3 than the interim revenue increase, which, as explained, is less than half of the permanent  
4 increase the Company has requested. Hanford It. at 8-9.

5 For all of these reasons, interim rate relief is both authorized under Arizona law  
6 and necessary to protect the financial integrity of the Company and its ability to provide  
7 safe and reliable water service to its customers.

### 8 **III. CONCLUSION**

9 The proposed interim rate relief is necessary to prevent the continued erosion of the  
10 Company's financial condition. The requested relief is conservative, it is supported by the  
11 facts and the law, and its approval will serve the public interest by allowing the Company  
12 the opportunity to earn a reasonable return on its rate base until new, permanent rates can  
13 be approved in 2009.

14 WHEREFORE, for the foregoing reasons, the Company requests that the  
15 Commission:

16 1. Approve interim rates, subject to refund, according to the proposed rate  
17 schedules filed concurrently herewith on an expedited basis;

18 2. Authorize such interim rates to remain in effect until new, permanent rates  
19 have been approved and become effective following the completion of this rate case;

20 3. Direct the Hearing Division to schedule a Procedural Conference to  
21 establish deadlines and procedures necessary to ensure the immediate consideration of the  
22 Company's Motion; and

23 4. For such other and further relief as the Commission deems appropriate to  
24 protect the Company's financial integrity pending the completion of this rate case.

25

26



1 Respectfully submitted this 8<sup>th</sup> day of September, 2008.

2 FENNEMORE CRAIG, P.C.

3  
4 By 

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Company

10 **ORIGINAL** and thirteen (13) copies  
11 of the foregoing were filed  
12 this 8<sup>th</sup> day of September, 2008 with:

13 Docket Control  
14 Arizona Corporation Commission  
15 1200 W. Washington St.  
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16 **Copy of the foregoing was hand delivered**  
17 this 8<sup>th</sup> day of September, 2008 to:

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8  
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10 IN THE MATTER OF THE APPLICATION  
11 OF CHAPARRAL CITY WATER  
12 COMPANY, INC., AN ARIZONA  
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14 DETERMINATION OF THE FAIR VALUE  
15 OF ITS UTILITY PLANT AND  
16 PROPERTY AND FOR INCREASES IN  
17 ITS RATES AND CHARGES FOR  
18 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02113A-07-0551

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**TESTIMONY OF ROBERT N. HANFORD  
IN SUPPORT OF MOTION FOR APPROVAL  
OF INTERIM RATES**

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1    **I.    INTRODUCTION, PURPOSE OF TESTIMONY.**

2    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3    A.    Robert N. Hanford, 12021 N. Panorama Dr., Fountain Hills, Arizona, 85268.

4    **Q.    BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5    A.    I am employed by Chaparral City Water Company ("CCWC" or the "Company")  
6        as its District Manager.

7    **Q.    PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS DISTRICT**  
8        **MANAGER.**

9    A.    I am generally responsible for managing day-to-day operations, including capital  
10       budget planning, water system operations and maintenance, customer service and  
11       community relations, and compliance with local, state and federal requirements  
12       pertaining to water quality and water supply, and Corporation Commission  
13       compliance.

14   **Q.    DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF THE**  
15       **COMPANY IN THIS CASE?**

16   A.    Yes, my direct testimony was filed in September, 2007, with the Company's  
17       application.

18   **Q.    WHAT IS THE PURPOSE OF THIS TESTIMONY?**

19   A.    To support CCWC's request for approval to implement interim rates by discussing  
20       our current financial picture and the need for interim rates.

21   **II.    COMPANY'S CURRENT FINANCIAL PICTURE.**

22   **Q.    MR. HANFORD, HOW WOULD YOU CHARACTERIZE THE**  
23       **COMPANY'S CURRENT FINANCIAL PICTURE?**

24   A.    In one word, dismal. Since CCWC's last rate case, we have never been able to  
25       achieve the returns we were authorized in Decision No. 68176 (September 30,  
26       2005). Bourassa Direct Testimony ("Bourassa Dt.") at 3. We are currently in our

1 capital budget process for 2009. We compete for capital with other operating units  
2 of the parent holding company of CCWC, American States Water ("American  
3 States"). American States has been publicly traded on the NYSE for over 75 years.  
4 As a publicly held company, American States must maintain a fiduciary  
5 responsibility to its shareholders. This cannot be achieved when we have no real  
6 opportunity to earn our authorized rate of return and the implementation of new  
7 rates is delayed for several months.

8 **Q. WHAT IS THE CURRENT RETURN ON EQUITY BEING REALIZED BY**  
9 **THE COMPANY?**

10 A. CCWC's ROE was 1.93% for 2006 and 1.74% for 2007 based on year end  
11 financial statements reviewed by independent auditors. *See Audited Financials*  
12 *2006 and 2007 at Exhibit A.*

13 **Q. HOW DID THINGS GET THIS WAY?**

14 A. There are many significant factors, but the most significant factors are the impact  
15 of the historical test year, coupled at this time with the delay in obtaining rate  
16 relief. By adhering strictly to the historic test year, as opposed to a future test year,  
17 and by rejecting adjustment mechanisms and other well established ratemaking  
18 tools to ensure utilities retain a reasonable opportunity to earn its authorized return,  
19 companies like CCWC are never allowed to catch up with expenses. By the time  
20 new rates are approved, known and measurable costs, such as purchased water and  
21 purchased power, have significantly increased, along with all other expenses like  
22 labor, fuel, health care, and even office supplies. Everything costs more due to the  
23 increased costs being experienced by everybody everywhere and we have no way  
24 to recover those costs short of rate relief, which in this case has been substantially  
25 delayed.

26 We acknowledge the Commission's role to responsibly regulate a monopoly

1 water service provider. What we cannot understand is why rate cases should have  
2 to take so long, and cost so much, with months of discovery, hundreds of data  
3 requests, multiple rounds of prefiled testimony, multiple post-hearing briefs, and  
4 then a little mini-retrial before the Commissioners. Water service has not changed  
5 much in the last few decades, unlike the huge technological breakthroughs in the  
6 telecommunications industry. Not much has changed except the increased cost to  
7 provide service. In the end, we are stuck in a system where the utility must scrap  
8 for the opportunity to earn every single dollar of its operating income, only to walk  
9 away with new rates that are too far behind our current costs to actually leave us  
10 with a reasonable chance to earn the authorized returns.

11 **Q. DO YOU SEE THIS AS A PROBLEM UNIQUE TO YOUR COMPANY MR.**  
12 **HANFORD?**

13 A. Sadly, no. I am on the Board of Directors of the Water Utility Association of  
14 Arizona and I know that the frustration we feel is not isolated to CCWC. I also  
15 heard Mr. Paul Townsley address the Commission recently in the Anthem rate case  
16 and explain the serious problems they are having attracting capital due to the low  
17 returns being realized in this state. APS appears to be in the same boat too based  
18 on their request for interim revenue increases of some \$115 million. *Arizona*  
19 *Public Service Company - Motion for Approval of Interim Rate and Preliminary*  
20 *Order* (Docket No. E-01345A-08-0172). APS cites the rising cost of capital  
21 expenditures coupled with inadequate cash flow, under earning due to a reduced  
22 return on equity, and high financing costs based on poor performance. Apparently,  
23 APS's jurisdictional ROE for 2008 is anticipated to be just 8.4%, falling to  
24 approximately 6.3% by 2009 – despite the ACC authorizing a 10.75% ROE for  
25 APS in its last rate case, leading to an alleged earnings shortfall of approximately  
26 \$213 million. These same factors represent current and potentially future harm to



1 the customers of CCWC. This state's water and sewer utility industry is hurting.

2 **Q. HASN'T THE COMPANY CREATED ITS OWN DIFFICULTIES DUE TO**  
3 **ITS APPEAL OF DECISION NO. 68176?**

4 A. No. The Commission violated the Constitution, the Commission refused to  
5 proceed expeditiously to process the remand, and the Commission stayed our rate  
6 case. When we tried to implement interim rates under our statutory rights, we were  
7 told by Staff that the Commission would block us. Meanwhile, we are bleeding.  
8 And that is without even considering the additional revenue we believed we are  
9 entitled to following the remand.

10 **Q. WHAT TEST YEAR ARE THE CURRENT RATES BASED ON MR.**  
11 **HANFORD?**

12 A. A 2003 test year with limited adjustments for out-of-test year changes in expenses,  
13 some of which actually lowered our revenues.

14 **Q. HOW MUCH HAVE THE COMPANY'S OPERATING EXPENSES**  
15 **INCREASED SINCE THE LAST TEST YEAR?**

16 A. Operating expenses have increased by over \$1 million based on the operating  
17 income approved in the prior case and the adjusted operating expenses in the  
18 general case. This is nearly a 19% increase over the prior case's operating  
19 expenses.

20 **Q. HAVEN'T INCREASES IN SALES OFFSET SOME OF THE INCREASED**  
21 **OPERATING EXPENSES?**

22 A. Hardly, sales have only increased 5.4%. Our expenses went up 19% during the  
23 same time period.

24 **Q. COULDN'T SOME OF THESE EXPENSE INCREASES HAVE BEEN**  
25 **OFFSET BY USE OF ADJUSTER MECHANISMS?**

26 A. Yes. CCWC's big 3 operating expenses are purchased water, purchased power and

labor. CCWC requested purchased water and purchased water adjustment mechanisms and they were denied by the Commission in Decision No. 68176.

**Q. HOW MUCH HAVE THE COST OF PURCHASED WATER AND POWER INCREASED SINCE THE CURRENT RATES WENT INTO EFFECT?**

A. CCWC relies almost solely on CAP surface water and is also a member of the Central Arizona Groundwater Replenishment District. CAP has increased its combined Municipal and Capital charges from \$103/ac-ft in 2003 to \$127/ac-ft in 2008, a 23.3% increase. For the calendar year 2009, CAP is planning a 12% increase in their water rates that CCWC will immediately have to pay in 2009 with no mechanism to pass on these costs.

CCWC purchases power from both SRP and APS. SRP has increased its rates every year for the past seven years, and most recently imposed a 3.9% increase for 2008, resulting in an overall increase of 26.7% since 2002.<sup>1</sup> And SRP's rates may rise an additional 5% to 7% higher if their most recent rate increase request is granted. APS most recently received a 4% rate increase in 2007 and has recently filed for another increase of over 20%. The Commission approves rate increases for APS and allows APS to use adjustor mechanisms, yet we are not allowed to pass through these same increases to CCWC's water customers because our request for a purchased power adjustment mechanism was denied.

**Q. WHAT ABOUT PLANT INVESTMENT? DOES CCWC HAVE SIGNIFICANT AMOUNTS OF NEW PLANT THAT IS NOT YET INCLUDED IN RATE BASE?**

A. Yes, due primarily to the substantial delay in obtaining rate relief. Major backbone water infrastructure projects since the last rate order that have been completed or

<sup>1</sup> Since 2002, there have been three increases in SRP's general rates: 1.5% in 2004; 2.9% in 2005; and 1.8% in 2008. Since 2002, there have been seven increases in SRP's fuel-related rates: 2.8% in 2002; 3.6% in 2003; 3.7% in 2004; 1.3% in 2005; 2.3% in 2006; 4.7% in 2007; and 2.1% in 2008.

are under construction include:

- Replacement of the existing 120,000 gallon reservoir #4 with a new 500,000 gallon welded steel reservoir and booster pump station with emergency power.
- Electrical upgrades to well #10 including a new Motor Control Center and starters.
- Replacement of the disinfection system at well #10 from gas to liquid chlorine.
- Emergency power design and installation at the CAP, and Shea plants.
- Upgrades to the Blackbird plant including a new motor control center and emergency power and a new booster pump.
- Ongoing upgrades and improvements to our SCADA and telemetry system.
- Acquisition of additional water supply from the CAP under the terms of the Arizona Water Settlement Act.

The total costs of all these improvements was more than \$4.2 million. In addition, the Company has a meter and service line replacement program that has cost on average \$700,000 to \$800,000 annually since 2003.

**III. IMPACT OF POOR FINANCIAL PICTURE AND NEED INTERIM RATES.**

**Q. DOES THE POOR FINANCIAL PICTURE YOU HAVE PORTRAYED HAVE AN IMPACT ON THE COMPANY AND ITS RATEPAYERS?**

A. Yes, a detrimental impact.

**Q. PLEASE EXPLAIN.**

A. As stated previously, CCWC competes for capital with other operating entities of American States, in particular Golden State Water, and American States competes for capital with numerous other investment opportunities in a struggling economy.

1 It is my understanding that under the California PUC, Golden State Water is  
2 allowed ROE's of nearly 10%. In addition, California water investments have far  
3 less risk than similar investments in Arizona due to California's use of forward  
4 looking test years, balancing accounts and adjustor mechanisms. California  
5 ratemaking affords Golden State Water the opportunity to get timely recognition of  
6 its investment in plant to serve customers and timely recognition of changes in its  
7 operating expenses -- contrary to Arizona ratemaking. In an example of irony, the  
8 Commission uses a sample of water companies to determine a market based ROE  
9 (this sample includes Golden State Water Company), but refuses to acknowledge  
10 the higher levels of risk associated with Arizona investments. Commission  
11 decisions have calculated a lower ROE for CCWC in Arizona compared to what  
12 Golden State Water is able to achieve in a less risky regulatory environment. This  
13 disconnect is apparent to investors.

14 **Q. HOW DO YOU OPERATE IN THIS SORT OF FINANCIAL SQUEEZE?**

15 A. Some maintenance expenses can be minimized and capital projects can be deferred  
16 allowing a regulated utility to postpone significant system improvements and  
17 repairs until absolutely necessary. A Class "A" utility will be forced to operate in a  
18 manner similar to the hundreds of small class "C" "D" and "E" water companies in  
19 Arizona that are under capitalized and eke out an existence on a day to day basis.  
20 And ultimately, as we are now, we come on our hands and knees begging for some  
21 rate relief now.

22 **Q. WHAT LEVEL OF RATE INCREASE IS THE COMPANY SEEKING ON**  
23 **AN INTERIM BASIS?**

24 A. We are asking that rates be increased by approximately \$110,000 per month, which  
25 is less than half of the amount being sought in the rate case. *See Bourassa Interim*  
26 *Testimony at 4.* The impact on a typical customer served by a 3/4-inch meter,

1 using an average of 8,450 gallons per month, is \$5.97, which is an increase of  
2 18.43%. *See* Bourassa Interim Testimony at 15.

3 **Q. WHAT WOULD BE THE IMPACT ON THE COMPANY OF THE**  
4 **ADDITIONAL REVENUE FROM THE INTERIM RATES BEING**  
5 **REQUESTED?**

6 A. The increased cash flow from interim rates would make sure we can cover our  
7 operating expenses and thereby improve our earnings immediately. This will  
8 improve our ability to attract capital from our parent company, allowing us to  
9 proceed with some of the planned capital improvements. It will act as a signal to  
10 the utility investment community that Arizona can again be a state worthy of  
11 capital investments.

12 **IV. INTERIM RELIEF AND REFUND.**

13 **Q. DOES THE COMPANY UNDERSTAND THAT INTERIM RATES ARE**  
14 **JUST THAT, TEMPORARY?**

15 A. Yes, we only expect these rates to be in effect until the decision is issued in the  
16 pending rate case, at which time we expect permanent rates based on a higher  
17 revenue requirement than the interim revenue requirement used in this case.

18 **Q. BUT THE COMPANY DOES UNDERSTAND THAT THE PERMANENT**  
19 **RATES COULD BE LOWER AND THAT REFUNDS MIGHT BE**  
20 **REQUIRED?**

21 A. Absolutely. If somehow the Commission issues an order giving us less than fifty  
22 percent of the increase in revenue we requested, we would likely have to make  
23 refunds. We would do that through credits on customer bills. Given that we have  
24 been very conservative in the interim filing, however, even I would be very  
25 surprised if the permanent revenue requirement was lower than the proposed  
26 interim revenue requirement.

1 Q. DOES THAT CONCLUDE YOUR TESTIMONY IN SUPPORT OF  
2 INTERIM RATES?

3 A. Yes, although I do wish to make one final point. We do not see our current  
4 financial condition as being due to an inability of CCWC to operate prudently. We  
5 have an excellent compliance, service and safety record at every level. We see  
6 ourselves as the kind of utility that should be rewarded for its service and risk, and  
7 all we ask is a reasonable opportunity to earn a fair rate of return on the property  
8 we devote to public service. Interim rates followed by a fair decision in our  
9 pending rate case would go a long way to starting the Company's financial  
10 recovery.

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**TESTIMONY OF ROBERT N. HANFORD  
IN SUPPORT OF MOTION FOR APPROVAL  
OF INTERIM RATES AND PRELIMINARY ORDER**

**DOCKET NO: W-02113A-07-0551**

# **Exhibit A**

# **Chaparral City Water Company**

**Financial Statements  
December 31, 2006**



# Chaparral City Water Company

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December 31, 2006

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PricewaterhouseCoopers LLP  
350 South Grand Avenue  
Los Angeles CA 90071  
Telephone (213) 356 6000  
Facsimile (813) 637 4444

**Report of Independent Auditors**

To the Board of Directors and Stockholder of  
Chaparral City Water Company:

In our opinion, the accompanying balance sheet and statement of capitalization and the related statements of income, common stockholder's equity and cash flows present fairly, in all material respects, the financial position of Chaparral City Water Company (the "Company") at December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

April 26, 2007

# Chaparral City Water Company

## Balance Sheet

### December 31, 2006

<b>Assets</b>	
Utility plant	\$ 51,020,714
Less: accumulated depreciation	(14,947,296)
Construction work in progress	2,241,397
Net utility plant	<u>38,314,815</u>
<b>Other Property and Investments</b>	
Goodwill	11,613,874
Restricted cash	<u>728,061</u>
	<u>12,341,935</u>
<b>Current Assets</b>	
Cash and cash equivalents	391,430
Restricted cash	13,261
Accounts receivable, net of allowance of \$25,483	350,897
Inter-company receivables from GSWC	31,050
Inter-company taxes receivable from AWR	1,022,857
Income tax receivable	3,031
Unbilled revenues	324,967
Materials and supplies	14,521
Prepaid expenses and other current assets	192,485
Deferred income taxes - current	35,751
Regulatory assets - current	<u>71,000</u>
Total current assets	<u>2,451,250</u>
<b>Other Assets</b>	
Debt issuance costs	<u>424,010</u>
Total assets	<u>\$ 53,532,010</u>
<b>Capitalization and Liabilities</b>	
Common stockholder's equity	\$ 26,179,180
Long-term debt, less current maturities	<u>6,585,000</u>
Total capitalization	<u>32,764,180</u>
<b>Commitments and contingencies (Note 9)</b>	
<b>Current Liabilities</b>	
Long-term debt, current	280,000
Accounts payable	308,239
Inter-company loan payable to AWR	1,400,000
Accrued employee expenses	85,679
Accrued property taxes	121,041
Accrued interest	34,790
Other	<u>254,017</u>
Total current liabilities	<u>2,483,766</u>
<b>Other Credits</b>	
Customer deposits	819,845
Advances for construction	6,557,243
Contributions in aid of construction, net	6,188,963
Deferred income taxes	4,070,137
Regulatory liabilities	587,825
Other	<u>60,051</u>
Total other credits	<u>18,284,064</u>
Total capitalization and liabilities	<u>\$ 53,532,010</u>

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Statement of Capitalization**  
**December 31, 2006**

---

**Common stockholder's equity**

Common stock, par value \$10; 2,500,000 shares authorized,  
460,314 shares issued and outstanding

\$ 4,603,140

Additional paid-in capital

14,929,468

Retained earnings

6,646,572

26,179,180

**Long-term debt**

**Industrial Development Authority Bonds**

Series 1997A serial bonds, due 1998 through 2007 (4% to 4.85%)

240,000

Series 1997A term bonds, due December 1, 2011 (5.20%)

1,000,000

Series 1997A term bonds, due December 1, 2022 (5.40%)

4,610,000

Series 1997B term bonds, due December 1, 2022 (5.30%)

1,015,000

Total long-term debt

6,865,000

Less: current maturities

(280,000)

Long-term debt, less current maturities

6,585,000

Total capitalization

\$ 32,764,180

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Statement of Income**  
**Year Ended December 31, 2006**

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<b>Operating revenues</b>	
Sales of water	<u>\$7,755,907</u>
<b>Operating expenses</b>	
Purchased water	934,095
Power purchased for pumping	618,039
Other operating expenses	756,952
General and administrative expenses	1,983,106
Maintenance	319,024
Depreciation	1,632,458
Property and other taxes	<u>286,304</u>
	<u>6,529,978</u>
<b>Operating Income</b>	<u>1,225,929</u>
<b>Other income (expense)</b>	
Interest income	64,397
Interest expense	<u>(543,433)</u>
	<u>(479,036)</u>
<b>Income from operations before income tax expense</b>	<u>746,893</u>
<b>Income tax expense</b>	<u>241,774</u>
<b>Net income</b>	<u>\$ 505,119</u>

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Statement of Changes in Common Stockholder's Equity**  
**Year Ended December 31, 2006**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, January 1, 2006	\$ 4,603,140	\$14,925,242	\$ 6,141,453	\$25,669,835
Net income			505,119	505,119
Stock-based awards	<u>—</u>	<u>4,226</u>	<u>—</u>	<u>4,226</u>
Balance, December 31, 2006	<u>\$ 4,603,140</u>	<u>\$14,929,468</u>	<u>\$ 6,646,572</u>	<u>\$26,179,180</u>

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Statement of Cash Flows**  
**Year Ended December 31, 2006**

<b>Cash flows from operating activities</b>	
Net income	\$ 505,119
Adjustments for non-cash items	
Depreciation	1,632,458
Provision for doubtful accounts	11,835
Deferred income taxes	(131,512)
Tax benefit on goodwill	226,869
Amortization of debt issuance costs	26,501
Impairment loss	91,835
Stock-based compensation expense	1,836
Changes in operating assets and liabilities	
Accounts receivable	59,275
Unbilled revenues	13,943
Materials and supplies	2,508
Prepaid expenses and other current assets	(19,837)
Taxes receivable	(146,153)
Regulatory assets/liabilities	21,481
Other assets	122,243
Accounts payable	(42,939)
Inter-company receivables/payables	34,934
Customer deposits	(107,177)
Other liabilities	131,300
Net cash flows provided by operating activities	<u>2,434,519</u>
<b>Cash flows from investing activities</b>	
Capital expenditures	(2,283,627)
Change in restricted cash	(4,481)
Change in debt reserve fund	(4,941)
Net cash flows used in investing activities	<u>(2,293,049)</u>
<b>Cash flows from financing activities</b>	
Tax benefits from exercise of stock-based awards	2,390
Receipt of advances for and contributions in aid of construction	1,099,205
Refunds on advances for construction	(488,128)
Net change in inter-company borrowings	(600,000)
Repayments of long-term debt	(340,309)
Net cash flows used in financing activities	<u>(326,842)</u>
Decrease in cash and cash equivalents	(185,372)
Cash and cash equivalents at beginning of year	<u>576,802</u>
Cash and cash equivalents at end of year	<u>\$ 391,430</u>
<b>Supplemental disclosure of cash flow information</b>	
Interest paid	\$ 475,211
Income tax paid, net of refunds	\$ 290,180

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

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**I. Summary of Significant Accounting Policies**

**Nature of Operations**

Chaparral City Water Company ("CCWC") is a wholly owned subsidiary of American States Water Company ("AWR"). Prior to October 11, 2000, CCWC was a wholly owned subsidiary of MCO Properties Inc. ("MCO"). On October 10, 2000, AWR completed the acquisition of all the common stock of CCWC from MCO for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. The acquisition was accounted for as a purchase and the assets acquired and liabilities assumed have been recorded at their estimated fair values. CCWC is an Arizona public utility company engaged principally in the purchase, production, distribution and sale of water. The Company serves approximately 13,000 customers in Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. Regulated by the Arizona Corporation Commission ("ACC"), CCWC is required to provide service and grant credit to customers within its defined service area.

**Basis of Presentation**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect (i) the reported amount of assets and liabilities, (ii) disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of revenues and expenses recognized during each period presented. Actual results could differ from those estimates.

**Regulatory Accounting**

The Company's accounting policies conform to accounting principles generally accepted in the United States of America, including the accounting principles for rate-regulated enterprises, which reflect the rate-making policies of the ACC, and are maintained in accordance with the Uniform System of Accounts prescribed by the ACC. CCWC is subject to regulation by the ACC to the extent necessary to enable the ACC to determine that CCWC's rates constitute reasonable costs to its customers. Accordingly, CCWC is subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. CCWC does not use regulatory balancing accounts in its rate filings with the ACC, which would represent amounts due to or from its customers based on differences between actual costs and costs assumed in its rate structure, and accordingly, no such accounts are recorded in the accompanying financial statements. Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

**Cash and Cash Equivalents**

Cash equivalents consist of highly liquid money market instruments with original maturities of three months or less. At times, cash and cash equivalent balances may be in excess of federally insured limits. The Company's cash and cash equivalents are held with financial institutions with high credit standings.



**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

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**Restricted Cash**

In accordance with the terms of its long-term debt agreements, CCWC is required to maintain amounts on deposit in a trust account (the Debt Service Reserve) for payment of principal and interest (Note 4). The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. These amounts are classified as "restricted cash" in the balance sheet.

At December 31, 2006, CCWC held \$13,261 of restricted cash representing interest earned in excess of the required balance on the Debt Service Reserve related to the Industrial Development Authority. In accordance with the requirements of the bond indenture, this balance can only be used to pay the next regularly scheduled debt payment.

**Accounts Receivable**

Accounts receivable is reported on the balance sheet net of any allowance for doubtful accounts. The allowance is based on CCWC's evaluation of the receivable portfolio under current conditions and review of specific problems and such other factors that, in our judgment, deserve recognition in estimating losses.

**Materials and Supplies**

Materials and supplies are stated at the lower of cost or market. Cost is computed using average cost.

**Utility Plant and Depreciation**

CCWC capitalizes as utility plant the cost of additions and replacements of retirement units. Such costs include labor, material, and certain indirect charges.

Depreciation is computed utilizing the straight-line method at rates based on the estimated useful lives of the assets as prescribed by the ACC. Effective October 1, 2005, the ACC approved new depreciation rates for CCWC's utility plant. Depreciation expense, reflected as a percentage of the aggregate depreciable asset balances, was 3.4% in 2006. Expenditures for maintenance and repairs are expensed as incurred. Replaced or retired property costs are charged to the accumulated provision for depreciation.

**Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. CCWC would recognize an impairment loss only if the carrying value amount of a long-lived asset is not recoverable from its undiscounted cash flows. An impairment loss is measured as the excess of the carrying value over the fair market value of the long-lived asset. Management judgment is involved in both deciding if testing for recoverability is necessary and in estimating undiscounted cash flows. For the year ended December 31, 2006, an impairment loss of \$91,835.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

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**Goodwill**

At December 31, 2006, CCWC had \$11,613,874 of goodwill. The goodwill represents the difference between the aggregate purchase price and the fair value of CCWC's net assets acquired by AWR in October 2000. Goodwill is reduced on an ongoing basis to reflect the total tax benefit realized from amortizing, for tax purposes, the excess of tax over book goodwill basis in accordance with SFAS No. 109, *Accounting for Income Taxes*. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually on December 31 and more frequently if circumstances indicate that it may be impaired. The goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value, using the terminal value method, of the related operations that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations used in the first step, and is compared to its carrying value. The amount by which carrying value exceeds fair value represents the amount of goodwill impairment. The current year analysis indicated no impairment.

**Revenue**

CCWC records operating revenues when the service is provided to customers. Revenues include amounts billed to customers on a cycle basis based on meter reading for services provided and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period. Actual usage may vary from this estimate.

**Advances for Construction & Contributions-in-aid-of-Construction**

Advances for construction represent amounts advanced by developers, which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions. After all refunds are made, any remaining balance is transferred to contributions-in-aid of construction. During 2006, approximately \$4.2 million of advances that expired were transferred to contributions-in-aid of construction. Contributions-in-aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

**Debt Issuance Costs**

Original debt issuance costs are capitalized and amortized over the lives of the respective issues.

**New Accounting Pronouncements**

Effective January 1, 2006, CCWC adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, which requires the recognition of compensation expense related to the fair value of stock-based compensation awards. The adoption of this new standard did not have a material effect on CCWC's financial statements.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

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**Related Party Transactions**

CCWC receives various services from its parent, AWR, and from Golden State Water Company ("GSWC"), a wholly owned subsidiary of AWR. In addition, AWR has an \$85 million syndicated credit facility. AWR borrows under this facility and provides funds to CCWC in support of its operations. Amounts owed to AWR for borrowings under this facility total \$1,400,000 as of December 31, 2006 and are included in CCWC's inter-company payables on the balance sheet. The interest rate charged to CCWC is sufficient to cover AWR's interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. As of December 31, 2006, intercompany receivables included \$31,050 due from GSWC related to these allocations.

**2. Regulatory Matters**

In accordance with accounting principles for rate-regulated enterprises, CCWC records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenue associated with amounts that are to be credited to customers through the ratemaking process. Regulatory assets, less regulatory liabilities, included in the balance sheet are as follows as of December 31, 2006:

Deferred general rate case costs	\$ 195,250
Asset retirement obligations	47,925
Gain on settlement for removal of wells	<u>(760,000)</u>
	\$ <u>(516,825)</u>

**Deferred General Rate Case Costs:**

Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

**Asset Retirement Obligations:**

Effective January 1, 2003, CCWC adopted SFAS No. 143, "Accounting for Asset Retirement Obligations". Because retirement costs have historically been recovered through rates at the time of retirement, upon implementing SFAS No. 143, the cumulative effect was reflected as a regulatory asset. CCWC will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

**Gain on settlement for removal of wells:**

Fountain Hills Sanitary District ("FHSD") is a political subdivision of the State of Arizona that provides sanitary sewer service to customers residing within CCWC's water service area. In connection with its sanitary system, FHSD constructed a recharge system whereby it recharges treated effluent through multiple aquifer storage and recovery wells. In order for FHSD to secure an Aquifer Protection Permit for its recharge system, FHSD requested CCWC to permanently cease using one of its wells. As a possible replacement for this well, FHSD constructed a new well adjacent to the community center ("Community Center Well"). However, this well was not able to produce an equivalent amount of water to CCWC's well that was taken out of production. Accordingly, in February 2005, CCWC entered into an agreement with FHSD whereby CCWC agreed to permanently remove from service this well and in return CCWC received a settlement fee of \$1,520,000 from FHSD. Pursuant to the agreement, CCWC will: (i) permanently remove from service and cap this well, and cap another well which had never been used as a potable source of supply; (ii) relinquish any legal claim or interest that CCWC may otherwise possess in the Community Center Well; and (iii) grant an option to FHSD to acquire one of the wells at a future date at fair market value. CCWC has recognized a net gain of \$760,000 related to this settlement agreement and has established a regulatory liability for the remaining \$760,000 pending ACC review of this matter.

**3. Utility Plant**

The following table shows the Company's utility plant by major class as of December 31, 2006:

Land	\$ 271,857
Source of water supply	4,966,019
Pumping	3,323,855
Water treatment	8,275,225
Transmission and distribution	32,312,760
Other property and equipment	1,870,998
	<u>51,020,714</u>
Accumulated depreciation	(14,947,296)
Construction work in progress	2,241,397
	<u>\$ 38,314,815</u>

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

**4. Long-term Debt**

**Industrial Development Authority Bonds**

Substantially all of utility plant is pledged as collateral for CCWC's Industrial Development Authority Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios; (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, merge with another corporation, and (iii) restricts the payment of dividends. CCWC maintains a debt service reserve fund with a balance of \$658,306 at December 31, 2006. Amounts are classified as non-current restricted cash on the balance sheet. The loan and trust agreement contains restrictive covenants, including the maintenance of a debt service coverage ratio of 2.0, as defined in the loan and trust agreement, calculated annually at year end. As of December 31, 2006, CCWC was in compliance with all covenants under the loan and trust agreement.

**Repayment Contract**

In 1984, CCWC entered into an agreement with the United States Bureau of Reclamation for construction of a delivery and storage system to transport Central Arizona Project ("CAP") water to CCWC's property (the "Delivery Agreement"). In connection therewith, a repayment obligation was incurred by CCWC related to construction costs plus interest. CCWC made the final payment on this obligation in 2006. Interest accrued at a rate of 3.34% per annum. The cost of the constructed assets is recorded as utility plant. Under the terms of the Delivery Agreement, CCWC retains the right to use the delivery and storage system for an unspecified time period conditional upon meeting certain obligations including making scheduled principal and interest repayments for the construction costs and operating and maintaining the system. The Delivery Agreement also provides that the United States Bureau of Reclamation retains ownership of the system. Pursuant to this Agreement, CCWC continues to maintain a debt service reserve fund with a balance of \$69,755 at December 31, 2006. This amount is classified as part of non-current restricted cash on the balance sheet.

Maturities of long-term debt outstanding at December 31, 2006 are as follows:

2007	\$	280,000
2008		300,000
2009		310,000
2010		330,000
2011		345,000
Thereafter		5,300,000
		<u>6,865,000</u>
Less - current portion		(280,000)
	\$	<u>6,585,000</u>

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

**5. Dividend Limitations**

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted by Arizona law. Under restrictions of the Arizona tests, approximately \$6.6 million was available to pay dividends to AWR at December 31, 2006. Contractual restrictions are the most restrictive. There were no dividends distributed from CCWC to AWR in 2006.

**6. Taxes on Income**

CCWC is included in AWR's consolidated federal income tax return. CCWC files an Arizona state income tax return. CCWC's federal tax provision and liability are computed as if it filed a separate return. Income tax expense includes the current tax liability from operations, the change in deferred income taxes during the year, and the reduction in goodwill during the year (as discussed under "Goodwill"). CCWC applies the provisions of SFAS No. 109, *Accounting for Income Taxes*, which requires the use of an asset and liability approach in accounting for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in CCWC's financial statements or tax returns.

The significant components of the deferred tax assets and liabilities as reflected in the balance sheet at December 31, 2006 were:

<b>Deferred tax assets</b>	
Contributions and advances	\$ 1,672,015
Other property related	36,302
Other nonproperty related	<u>65,717</u>
	1,774,034
<b>Deferred tax liabilities</b>	
Goodwill	(3,119,603)
Fixed assets	(2,591,857)
Other property related	(6,605)
Other	<u>(90,355)</u>
	(5,808,420)
Accumulated deferred income taxes - net	<u>\$ (4,034,386)</u>

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

The current and deferred components of income tax expense were as follows:

<b>Current provision</b>	
Federal	\$ 146,267
State	150
Total current tax expense	<u>146,417</u>
<b>Deferred provision</b>	
Federal	(114,619)
State	(16,893)
Total deferred tax expense	<u>(131,512)</u>
Benefit applied to reduce goodwill	<u>226,869</u>
Total income tax expense	<u>\$ 241,774</u>

The federal statutory rate differs from the effective rate primarily due to state taxes, net of federal benefit, and adjustments resulting from the completion in 2006 of the Internal Revenue Service and Joint Committee of Taxation reviews of an amended 2001 federal return filed in 2005.

**7. Employee Benefit Plans**

GSWC has a defined benefit plan (the "Plan") that provides eligible employees of GSWC and its affiliates, including CCWC, monthly benefits upon retirement based on average salaries and length of service. Pension cost of the Company is based on an allocation from GSWC of the total cost related to the Plan. The allocated pension cost for CCWC was \$152,306 for the year ended December 31, 2006. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. Annual contributions are made to the Plan, which comply with the funding requirements of the Employee Retirement Income Security Act ("ERISA"). All active employees are also offered medical, dental, and vision care benefits through various medical insurance plans.

CCWC is also included in GSWC's 401(k) Investment Incentive Program, under which employees of GSWC and its affiliates may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions. The Company contributions to the 401(k) plan for 2006 totaled \$20,209.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

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**8. Related Party Transactions**

CCWC benefits from customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services provided and paid for by GSWC and reimbursed by CCWC. GSWC allocates these costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. The costs for these services, including allocated cost for the employee benefit plans discussed above, were \$1,292,436 for the year ended December 31, 2006 and have been included in other operating expenses and general and administrative expenses.

**9. Commitments and Contingencies**

CCWC obtains its water supply from two operating wells and from Colorado River water delivered by the Central Arizona Project ("CAP"). The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition.

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources ("ADWR"), providing in part that, subject to its requirements, CCWC has a sufficient supply of groundwater and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years. On April 7, 2004 the ADWR issued a decision confirming that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 9,828 acre-feet per year for a minimum of 100 years.

CCWC has a long-term water supply contract with the Central Arizona Water Conservation District (the "District") through September 2033, and is entitled to take 6,978 acre feet of water per year from the CAP. The maintenance rate for such water delivered is set by the District and is subject to annual increases. The estimated remaining commitment under this contract is \$5.3 million as of December 31, 2006 with an estimated annual payment of \$195,000.

The Arizona Water Settlement Act was signed into law in December 2004. This legislation provides for the additional CAP allocation to CCWC in the amount of 1,931 acre-feet per year. In order to receive this additional allocation, CCWC must enter into a revised contract with the District. CCWC is working on an amendment with the District to purchase the 1,931 acre-feet of water per year of additional CAP water rights for an estimated amount of \$1.1 million as of December 31, 2006. The price is subject to further adjustment and is expected to increase until final written agreement is executed, which is anticipated to be in 2007. Once a revised contract with the District is executed, CCWC expects to apply to the ADWR to modify and increase its designation of assured supply from 9,828 acre-feet per year to 11,759 acre-feet per year.



**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2006**

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Notwithstanding an assured water supply designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. CCWC has the physical capability to deliver water in excess of that which is currently accounted for in CCWC's assured water supply account.

CCWC is involved from time to time in claims and litigation, both as plaintiff and defendant, in the ordinary course of business. Management is of the opinion that the outcome of such litigation will not have a material adverse effect upon CCWC's results of operations, financial position or cash flows.



# **Chaparral City Water Company**

**Financial Statements**

**December 31, 2007**

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**December 31, 2007**

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PricewaterhouseCoopers LLP  
350 South Grand Avenue  
Los Angeles CA 90071  
Telephone (213) 356 6000  
Facsimile (813) 637 4444

**Report of Independent Auditors**

To the Board of Directors and Stockholder of  
Chaparral City Water Company:

In our opinion, the accompanying balance sheet and statement of capitalization and the related statements of income, common stockholder's equity and cash flows present fairly, in all material respects, the financial position of Chaparral City Water Company ("the Company") at December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

April 7, 2008

**Chaparral City Water Company**  
**Balance Sheet**  
**December 31, 2007**

<b>Assets</b>	
Utility plant	\$ 59,065,283
Less: accumulated depreciation	(16,737,559)
Construction work in progress	<u>946,533</u>
Net utility plant	<u>43,274,257</u>
<b>Other Property and Investments</b>	
Goodwill	11,353,429
Restricted cash	<u>728,775</u>
	<u>12,082,204</u>
<b>Current Assets</b>	
Cash and cash equivalents	-
Restricted cash	14,443
Accounts receivable, net of allowance of \$20,177	354,390
Inter-company receivables from GSWC	180,731
Inter-company taxes receivable from AWR	792,454
Unbilled revenues	333,846
Materials and supplies	13,908
Prepaid expenses and other current assets	157,116
Deferred income taxes - current	37,679
Regulatory assets - current	<u>71,000</u>
Total current assets	<u>1,935,567</u>
<b>Other Assets</b>	
Debt issuance costs	<u>397,510</u>
Total assets	<u>\$ 57,689,538</u>
<b>Capitalization and Liabilities</b>	
Common stockholder's equity	\$ 26,657,248
Long-term debt, less current maturities	<u>6,285,000</u>
Total capitalization	<u>32,942,248</u>
<b>Commitments and contingencies (Note 9)</b>	
<b>Current Liabilities</b>	
Long-term debt, current	300,000
Accounts payable	276,945
Bank overdrafts	39,510
Income taxes payable	4,779
Inter-company loan payable to AWR	1,650,000
Accrued employee expenses	97,317
Accrued property taxes	103,781
Accrued interest	31,369
Other	<u>174,913</u>
Total current liabilities	<u>2,678,614</u>
<b>Other Credits</b>	
Customer deposits	699,321
Advances for construction	5,562,045
Contributions in aid of construction, net	11,333,517
Deferred income taxes	3,666,654
Income taxes payable	164,712
Regulatory liabilities	557,144
Other	<u>85,283</u>
Total other credits	<u>22,068,676</u>
Total capitalization and liabilities	<u>\$ 57,689,538</u>

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Statement of Capitalization**  
**December 31, 2007**

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**Common stockholder's equity**

Common stock, par value \$10; 2,500,000 shares authorized, 460,314 shares issued and outstanding	\$ 4,603,140
Additional paid-in capital	14,946,900
Retained earnings	<u>7,107,208</u>
	<u>26,657,248</u>

**Long-term debt**

Industrial Development Authority Bonds	
Series 1997A term bonds, due December 1, 2011 (5.20%)	1,000,000
Series 1997A term bonds, due December 1, 2022 (5.40%)	4,610,000
Series 1997B term bonds, due December 1, 2022 (5.30%)	<u>975,000</u>
Total long-term debt	6,585,000
Less: current maturities	<u>(300,000)</u>
Long-term debt, less current maturities	<u>6,285,000</u>
Total capitalization	<u>\$ 32,942,248</u>

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Statement of Income**  
**Year Ended December 31, 2007**

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<b>Operating revenues</b>	
Sales of water	<u>\$ 7,704,041</u>
<b>Operating expenses</b>	
Purchased water	856,379
Power purchased for pumping	617,934
Other operating expenses	601,824
General and administrative expenses	1,940,670
Maintenance	537,446
Depreciation	1,684,820
Property and other taxes	<u>274,451</u>
	<u>6,513,524</u>
<b>Operating Income</b>	<u>1,190,517</u>
<b>Other income (expense)</b>	
Interest income	49,322
Interest expense	<u>(479,814)</u>
	<u>(430,492)</u>
<b>Income from operations before income tax expense</b>	<u>760,025</u>
Income tax expense	<u>295,012</u>
<b>Net income</b>	<u>\$ 465,013</u>

The accompanying notes are an integral part of these financial statements.



**Chaparral City Water Company**  
**Statement of Changes in Common Stockholder's Equity**  
**Year Ended December 31, 2007**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Balance, January 1, 2007</b>	\$4,603,140	\$14,929,468	\$ 6,646,572	\$ 26,179,180
Cumulative effect of adopting FIN 48			(4,377)	(4,377)
Net income			465,013	465,013
Stock-based awards, net of tax effect	<u>—</u>	<u>17,432</u>	<u>—</u>	<u>17,432</u>
<b>Balance, December 31, 2007</b>	<u>\$4,603,140</u>	<u>\$14,946,900</u>	<u>\$ 7,107,208</u>	<u>\$ 26,657,248</u>

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Statement of Cash Flows**  
**Year Ended December 31, 2007**

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<b>Cash flows from operating activities</b>	
Net income	\$ 465,013
Adjustments for non-cash items:	
Depreciation	1,684,820
Provision for doubtful accounts	6,699
Deferred income taxes	(236,124)
Tax benefit on goodwill	260,445
Amortization of debt issuance costs	26,500
Stock-based compensation expense	3,664
Changes in operating assets and liabilities:	
Accounts receivable	(10,192)
Unbilled revenues	(8,879)
Materials and supplies	613
Prepaid expenses and other current assets	35,369
Taxes receivable/payable	240,833
Regulatory assets/liabilities	(30,681)
Other assets	19,649
Accounts payable	(31,294)
Inter-company receivables/payables	(129,681)
Customer deposits	(120,524)
Other liabilities	(3,660)
Net cash flows provided by operating activities	<u>2,172,570</u>
<b>Cash flows from investing activities</b>	
Capital expenditures	(2,848,217)
Change in restricted cash	(1,182)
Change in debt reserve fund	(714)
Net cash flows used in investing activities	<u>(2,850,113)</u>
<b>Cash flows from financing activities</b>	
Bank overdrafts	39,510
Tax benefits from exercise of stock-based awards	13,070
Receipt of advances for and contributions in aid of construction	463,756
Refunds on advances for construction	(200,223)
Net change in inter-company borrowings	250,000
Repayments of long-term debt	(280,000)
Net cash flows provided by financing activities	<u>286,113</u>
Decrease in cash and cash equivalents	(391,430)
Cash and cash equivalents at beginning of year	<u>391,430</u>
Cash and cash equivalents at end of year	<u>\$ —</u>
<b>Supplemental disclosure of cash flow information</b>	
Interest paid	\$ 442,103
Income tax paid, net of refunds	\$ 16,788

The accompanying notes are an integral part of these financial statements.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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**1. Summary of Significant Accounting Policies**

**Nature of Operations**

Chaparral City Water Company ("CCWC") is a wholly owned subsidiary of American States Water Company ("AWR"). Prior to October 11, 2000, CCWC was a wholly owned subsidiary of MCO Properties Inc. ("MCO"). On October 10, 2000, AWR completed the acquisition of all the common stock of CCWC from MCO for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. The acquisition was accounted for as a purchase and the assets acquired and liabilities assumed have been recorded at their estimated fair values. CCWC is an Arizona public utility company engaged principally in the purchase, production, distribution and sale of water. The Company serves approximately 13,000 customers in Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. Regulated by the Arizona Corporation Commission ("ACC"), CCWC is required to provide service and grant credit to customers within its defined service area.

**Basis of Presentation**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect (i) the reported amount of assets and liabilities, (ii) disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of revenues and expenses recognized during each period presented. Actual results could differ from those estimates.

**Regulatory Accounting**

The Company's accounting policies conform to accounting principles generally accepted in the United States of America, including the accounting principles for rate-regulated enterprises, which reflect the rate-making policies of the ACC, and are maintained in accordance with the Uniform System of Accounts prescribed by the ACC. CCWC is subject to regulation by the ACC to the extent necessary to enable the ACC to determine that CCWC's rates constitute reasonable costs to its customers. Accordingly, CCWC is subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. CCWC does not use regulatory balancing accounts in its rate filings with the ACC, which would represent amounts due to or from its customers based on differences between actual costs and costs assumed in its rate structure, and accordingly, no such accounts are recorded in the accompanying financial statements. Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

**Cash and Cash Equivalents**

Cash equivalents consist of highly liquid money market instruments with original maturities of three months or less. At times, cash and cash equivalent balances may be in excess of federally insured limits. The Company's cash and cash equivalents are held with financial institutions with high credit standings.

**Restricted Cash**

In accordance with the terms of its long-term debt agreements, CCWC is required to maintain amounts on deposit in a trust account (the Debt Service Reserve) for payment of principal and interest (Note 4). The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. These amounts are classified as "restricted cash" in the balance sheet.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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At December 31, 2007, CCWC held \$14,443 of restricted cash representing interest earned in excess of the required balance on the Debt Service Reserve related to the Industrial Development Authority. In accordance with the requirements of the bond indenture, this balance can only be used to pay the next regularly scheduled debt payment.

**Accounts Receivable**

Accounts receivable is reported on the balance sheet net of any allowance for doubtful accounts. The allowance is based on CCWC's evaluation of the receivable portfolio under current conditions and review of specific problems and such other factors that, in our judgment, deserve recognition in estimating losses. During 2007, CCWC added \$6,699 to the allowance for doubtful accounts and wrote-off \$11,633, net of recoveries.

**Materials and Supplies**

Materials and supplies are stated at the lower of cost or market. Cost is computed using average cost.

**Utility Plant and Depreciation**

CCWC capitalizes as utility plant the cost of additions and replacements of retirement units. Such costs include labor, material, and certain indirect charges.

Depreciation is computed utilizing the straight-line method at rates based on the estimated useful lives of the assets as prescribed by the ACC. Effective October 1, 2005, the ACC approved new depreciation rates for CCWC's utility plant. Depreciation expense, reflected as a percentage of the aggregate depreciable asset balances, was 3.3% in 2007. Expenditures for maintenance and repairs are expensed as incurred. Replaced or retired property costs are charged to the accumulated provision for depreciation.

**Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. CCWC would recognize an impairment loss only if the carrying value amount of a long-lived asset is not recoverable from its undiscounted cash flows. An impairment loss is measured as the excess of the carrying value over the fair market value of the long-lived asset. Management judgment is involved in both deciding if testing for recoverability is necessary and in estimating undiscounted cash flows. For the year ended December 31, 2007, there was no impairment loss. Periodically, CCWC also reviews for possible impairment its utility plant in service in accordance with SFAS No. 90, *Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs*. During 2007, there were no write-offs due to disallowances by the ACC.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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**Goodwill**

At December 31, 2007, CCWC had \$11,353,429 of goodwill. The goodwill represents the difference between the aggregate purchase price and the fair value of CCWC's net assets acquired by AWR in October 2000. Goodwill is reduced on an ongoing basis to reflect the total tax benefit realized from amortizing, for tax purposes, the excess of tax over book goodwill basis in accordance with SFAS No. 109, *Accounting for Income Taxes*. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually on December 31 and more frequently if circumstances indicate that it may be impaired. The goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value, using the terminal value method, of the related operations that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations used in the first step, and is compared to its carrying value. The amount by which carrying value exceeds fair value represents the amount of goodwill impairment. The current year analysis indicated no impairment.

**Revenue**

CCWC records operating revenues when the service is provided to customers. Revenues include amounts billed to customers on a cycle basis based on meter reading for services provided and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period. Actual usage may vary from this estimate.

**Advances for Construction & Contributions-in-aid-of-Construction**

Advances for construction represent amounts advanced by developers, which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions. After all refunds are made, any remaining balance is transferred to contributions-in-aid of construction. During 2007, \$2,558,793 of advances that expired were transferred to contributions-in-aid of construction. Contributions-in-aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

**Debt Issuance Costs**

Original debt issuance costs are capitalized and amortized over the lives of the respective issues.

**Related Party Transactions**

CCWC receives various services from its parent, AWR, and from Golden State Water Company ("GSWC"), a wholly owned subsidiary of AWR. In addition, AWR has an \$85 million syndicated credit facility. AWR borrows under this facility and provides funds to CCWC in support of its operations. Amounts owed to AWR for borrowings under this facility total \$1,650,000 as of December 31, 2007 and are included in CCWC's inter-company payables on the balance sheet. The interest rate charged to CCWC is sufficient to cover AWR's interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. As of December 31, 2007, intercompany receivables included \$160,731 due from GSWC related to these allocations.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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**New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *"Fair Value Measurements"*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. CCWC will implement the new standard effective January 1, 2008. CCWC is currently evaluating the impact, if any, that SFAS No. 157 may have on its future financial statements and disclosures. In February 2008 the FASB delayed the effective date of SFAS No. 157 for certain nonfinancial assets and liabilities until January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"*. SFAS No. 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between "carrying value" and "fair value" at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. SFAS No. 159 also establishes additional disclosure requirements designed to facilitate comparison between companies that choose different measurement attributes for similar type assets and liabilities. SFAS No. 159 is effective for CCWC's fiscal year beginning January 1, 2008. CCWC is evaluating the potential impact of SFAS No. 159; however, this standard is not expected to have a material impact on CCWC's future financial statements.

In December 2007, the FASB issued SFAS No. 141(R) (revised 2007), *"Business Combinations"*. SFAS No. 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations CCWC engages in will be recorded and disclosed following existing accounting standards until January 1, 2009.

In December 2007, the FASB also issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51"*. The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). CCWC is evaluating the potential impact of SFAS No. 160; however, this standard is not expected to have any material impact on CCWC's future financial statements and disclosures.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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**2. Regulatory Matters**

In accordance with accounting principles for rate-regulated enterprises, CCWC records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenue associated with amounts that are to be credited to customers through the ratemaking process. Regulatory assets, less regulatory liabilities, included in the balance sheet are as follows as of December 31, 2007:

Deferred general rate case costs	\$ 222,293
Asset retirement obligations	51,563
Gain on settlement for removal of wells	(760,000)
	<u>\$ (486,144)</u>

**Deferred General Rate Case Costs**

Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

**Asset Retirement Obligations**

Effective January 1, 2003, CCWC adopted SFAS No. 143, "Accounting for Asset Retirement Obligations". Because retirement costs have historically been recovered through rates at the time of retirement, upon implementing SFAS No. 143, the cumulative effect was reflected as a regulatory asset. CCWC will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

**Gain on settlement for removal of wells**

Fountain Hills Sanitary District ("FHSD") is a political subdivision of the State of Arizona that provides sanitary sewer service to customers residing within CCWC's water service area. In connection with its sanitary system, FHSD constructed a recharge system whereby it recharges treated effluent through multiple aquifer storage and recovery wells. In order for FHSD to secure an Aquifer Protection Permit for its recharge system, FHSD requested CCWC to permanently cease using one of its wells. As a possible replacement for this well, FHSD constructed a new well adjacent to the community center ("Community Center Well"). However, this well was not able to produce an equivalent amount of water to CCWC's well that was taken out of production. Accordingly, in February 2005, CCWC entered into an agreement with FHSD whereby CCWC agreed to permanently remove from service this well and in return CCWC received a settlement fee of \$1,520,000 from FHSD. Pursuant to the agreement, CCWC will: (i) permanently remove from service and cap this well, and cap another well which had never been used as a potable source of supply; (ii) relinquish any legal claim or interest that CCWC may otherwise possess in the Community Center Well; and (iii) grant an option to FHSD to acquire one of the wells at a future date at fair market value. CCWC has recognized a net gain of \$760,000 related to this settlement agreement and has established a regulatory liability for the remaining \$760,000 pending ACC review of this matter.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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**3. Utility Plant**

The following table shows the Company's utility plant by major class as of December 31, 2007:

Land	\$ 271,857
Intangible assets	1,316,797
Source of water supply	5,023,466
Pumping	4,690,826
Water treatment	8,686,371
Transmission and distribution	37,217,186
Other property and equipment	1,858,780
	<u>59,065,283</u>
Accumulated depreciation	(16,737,559)
Construction work in progress	946,533
	<u>\$ 43,274,257</u>

**4. Long-term Debt**

**Industrial Development Authority Bonds**

Substantially all of utility plant is pledged as collateral for CCWC's Industrial Development Authority Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios; (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, merge with another corporation, and (iii) restricts the payment of dividends. CCWC maintains a debt service reserve fund with a balance of \$655,760 at December 31, 2007. Amounts are classified as non-current restricted cash on the balance sheet. The loan and trust agreement contains restrictive covenants, including the maintenance of a debt service coverage ratio of 2.0, as defined in the loan and trust agreement, calculated annually at year end. As of December 31, 2007, CCWC was in compliance with all covenants under the loan and trust agreement.

**Repayment Contract**

In 1984, CCWC entered into an agreement with the United States Bureau of Reclamation for construction of a delivery and storage system to transport Central Arizona Project ("CAP") water to CCWC's property (the "Delivery Agreement"). In connection therewith, a repayment obligation was incurred by CCWC related to construction costs plus interest. CCWC made the final payment on this obligation in 2006. Interest accrued at a rate of 3.34% per annum. The cost of the constructed assets is recorded as utility plant. Under the terms of the Delivery Agreement, CCWC retains the right to use the delivery and storage system for an unspecified time period conditional upon meeting certain obligations including making scheduled principal and interest repayments for the construction costs and operating and maintaining the system. The Delivery Agreement also provides that the United States Bureau of Reclamation retains ownership of the system. Pursuant to this Agreement, CCWC continues to maintain a debt service reserve fund with a balance of \$73,015 at December 31, 2007. This amount is classified as part of non-current restricted cash on the balance sheet.



**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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Maturities of long-term debt outstanding at December 31, 2007 are as follows:

2008	\$ 300,000
2009	310,000
2010	330,000
2011	345,000
2012	365,000
Thereafter	<u>4,935,000</u>
	6,585,000
Less - current portion	<u>(300,000)</u>
	<u>\$ 6,285,000</u>

**5. Dividend Limitations**

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted by Arizona law. Under restrictions of the Arizona tests, approximately \$7.1 million was available to pay dividends to AWR at December 31, 2007. Contractual restrictions are the most restrictive. There were no dividends distributed from CCWC to AWR in 2007.

**6. Taxes on Income**

CCWC is included in AWR's consolidated federal income tax return. CCWC files an Arizona state income tax return. CCWC's federal tax provision and liability are computed as if it filed a separate return. Income tax expense includes the current tax liability from operations, the change in deferred income taxes during the year, and the reduction in goodwill during the year (as discussed under "Goodwill"). CCWC applies the provisions of SFAS No. 109, *Accounting for Income Taxes*, which requires the use of an asset and liability approach in accounting for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in CCWC's financial statements or tax returns.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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The significant components of the deferred tax assets and liabilities as reflected in the balance sheet at December 31, 2007 were:

<b>Deferred tax assets</b>	
Contributions and advances	\$ 2,683,486
Other property-related	36,302
Other nonproperty-related	<u>52,215</u>
	2,772,003
<b>Deferred tax liabilities</b>	
Goodwill	(3,869,789)
Fixed assets	(2,409,055)
Other property-related	(8,116)
Other nonproperty-related	<u>(114,018)</u>
	(6,400,978)
Accumulated deferred income taxes - net	<u>\$ (3,628,975)</u>

The current and deferred components of income tax expense were as follows:

<b>Current provision</b>	
Federal	\$ 237,549
State	<u>33,142</u>
Total current tax expense	<u>270,691</u>
<b>Deferred provision</b>	
Federal	(209,074)
State	<u>(27,050)</u>
Total deferred tax expense	<u>(236,124)</u>
Benefit applied to reduce goodwill	<u>260,445</u>
Total income tax expense	<u>\$ 295,012</u>

The federal statutory rate differs from the effective rate primarily due to state taxes, net of federal benefit.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, in May 2007, the FASB Staff Position ("FSP") issued FSP FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48", which amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Effective January 1, 2007, CCWC adopted FIN 48 and, as a result thereof, decreased its retained earnings by \$4,377.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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The following table provides a reconciliation of CCWC's unrecognized tax benefits at December 31, 2007.

Unrecognized tax benefits at January 1, 2007	None
Increases as a result of tax positions taken prior to 2007	—
Decreases as a result of tax positions taken prior to 2007	—
Increases as a result of tax positions taken during 2007	—
Decreases as a result of tax positions taken during 2007	—
Decreases relating to settlements with taxing authorities	—
Reductions as a result of lapses of statute-of-limitation periods	—
Unrecognized tax benefits at December 31, 2007	<u>None</u>

Portion of unrecognized-tax-benefit balance at December 31, 2007 that would affect the effective tax rate if recognized

None

With the adoption of FIN 48, CCWC continued its policy of classifying interest on income tax over/underpayments in interest income/expense and penalties in "other operating expenses." At December 31, 2007, CCWC included \$26,253 of interest payables to taxing authorities in other liabilities (all as noncurrent). CCWC recognized \$14,681 of interest expense to taxing authorities for the year ended December 31, 2007. At December 31, 2007, CCWC had no accruals for income-tax-related penalties and did not recognize any income-tax related penalties during the year ended December 31, 2007.

CCWC files federal and Arizona state income tax returns. The U.S. federal filings for the years 1997 through 1999 and 2002 came under examination during the first quarter of 2007 as a result of AWR having filed an amended 2002 return during the third quarter of 2006 for which Internal Revenue Service ("IRS") and Congressional Joint Committee of Taxation ("JCT") reviews are required. While the 2002 return was amended primarily with respect to changes to taxable income for entities other than CCWC included in the consolidated tax return, certain minor changes pertain to CCWC. CCWC is unable to anticipate when the IRS and JCT reviews will be concluded.

AWR's 2004 through 2006 tax years also remain subject to examination by the IRS and its 2003 through 2006 tax years remain subject to examination by the Arizona Department of Revenue.

**7. Employee Benefit Plans**

GSWC has a defined benefit plan (the "Plan") that provides eligible employees of GSWC and its affiliates, including CCWC, monthly benefits upon retirement based on average salaries and length of service. CCWC's pension cost is a percentage of the total cost based on CCWC's payroll as compared to the total payroll for employees of GSWC and its affiliates. The allocated pension cost for CCWC was \$85,207 for the year ended December 31, 2007. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. Annual contributions are made to the Plan, which comply with the funding requirements of the Employee Retirement Income Security Act ("ERISA"). All active employees are also offered medical, dental, and vision care benefits through various medical insurance plans.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
**December 31, 2007**

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CCWC is also included in GSWC's 401(k) Investment Incentive Program, under which employees of GSWC and its affiliates may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions. The Company contributions to the 401(k) plan for 2007 totaled \$54,505.

**8. Related Party Transactions**

CCWC benefits from customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services provided and paid for by GSWC and reimbursed by CCWC. GSWC allocates these costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. The costs for these services, including allocated cost for the employee benefit plans discussed above, were \$749,402 for the year ended December 31, 2007 and have been included in other operating expenses and general and administrative expenses.

**9. Commitments and Contingencies**

CCWC obtains its water supply from two operating wells and from Colorado River water delivered by the Central Arizona Project ("CAP"). The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition.

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources ("ADWR"), providing in part that, subject to its requirements, CCWC has a sufficient supply of groundwater and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years. On April 7, 2004 the ADWR issued a decision confirming that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 9,828 acre-feet per year for a minimum of 100 years.

The Arizona Water Settlement Act was signed into law in December 2004. This legislation provides for the additional CAP allocation to CCWC in the amount of 1,931 acre-feet per year. In November 2007, a final written agreement was executed and CCWC paid approximately \$1.3 million for this additional CAP water rights. CCWC will file an application with ADWR in 2008 to modify and increase its designation of assured supply from 9,828 acre-feet per year to 11,759 acre-feet per year.

CCWC has a long-term water supply contract with the Central Arizona Water Conservation District (the "District") and is entitled to take 8,909 acre feet of water per year from the CAP, including the additional allocation of 1,931 acre-feet per year discussed above. The maintenance rate for such water delivered is set by the District and is subject to annual changes. On March 28, 2008, the District published its new rate schedules. Based on the new rate schedules, CCWC's estimated remaining commitment under this contract is \$588,000 as of December 31, 2007.

**Chaparral City Water Company**  
**Notes to Financial Statements**  
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Notwithstanding an assured water supply designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. CCWC has the physical capability to deliver water in excess of that which is currently accounted for in CCWC's assured water supply account.

CCWC is involved from time to time in claims and litigation, both as plaintiff and defendant, in the ordinary course of business. Management is of the opinion that the outcome of such litigation will not have a material adverse effect upon CCWC's results of operations, financial position or cash flows.



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5  
6  
7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8  
9 IN THE MATTER OF THE APPLICATION  
10 OF CHAPARRAL CITY WATER  
COMPANY, INC., AN ARIZONA  
11 CORPORATION, FOR A  
12 DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANT AND  
13 PROPERTY AND FOR INCREASES IN  
ITS RATES AND CHARGES FOR  
14 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02113A-07-0551

15  
16  
17 **TESTIMONY OF THOMAS J. BOURASSA**  
18 **IN SUPPORT OF MOTION FOR APPROVAL**  
19 **OF INTERIM RATE**  
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1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona, 85029.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a Certified Public Accountant and am self-employed, providing consulting  
7 services to utility companies as well as general accounting services. In this case, I  
8 am the rate consultant and testifying expert witness for Chaparral City Water  
9 Company ("CCWC" or "Company").

10 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF**  
11 **CHAPARRAL CITY WATER COMPANY IN THIS CASE?**

12 A. Yes, my direct testimony was filed with the Company's application in September,  
13 2007 (Docket No. W-02113A-07-551).

14 **II. OVERVIEW.**

15 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

16 A. To support the Company's motion for interim rates pending the final decision in  
17 this general rate case. I am sponsoring testimony that addresses the Company's  
18 rate base, its income statement (revenue and operating expenses), its requested  
19 increase in revenue, and its rate design and proposed rates and charges for service  
20 for the purpose of establishing interim rates. Interim schedules A through H are  
21 attached to my testimony.

22 **Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST FOR INTERIM**  
23 **RATE RELIEF?**

24 A. The interim rate schedules are based on the Company's application filed in  
25 September 2007. The Test Year is the same test year as used in CCWC's direct  
26 filing - the 12-month period ending December 31, 2006. In an effort to simplify

1 the interim rate application and be conservative, the Company adopted a limited  
2 number of the rate base and operating income adjustments the Company proposed  
3 in its direct filing. The rate base employed in the determination of the indicated  
4 revenue requirement is limited to original cost rate base and the cost of capital  
5 employed is limited to the cost of capital (7.6 percent) approved in the Company's  
6 prior rate case (Decision No. 68176, September 30, 2005).

7 The result is a proposed interim revenue increase of \$1,349,246, or 18.12  
8 percent, over the 2006 adjusted Test Year. The determination of this amount uses  
9 a return of 7.6 percent applied to the interim rate base of \$21,599,023. Again, the  
10 Company believes its request is conservative. The proposed interim monthly bill  
11 for a ¾ inch [1 inch] metered residential customer using an average of 8,450  
12 [10,095] gallons would be \$38.34 [\$57.00] – an increase of \$5.97 [\$8.86], or  
13 18.43% [18.41%] over the present rates.

14 **Q. PLEASE ILLUSTRATE HOW THE INTERIM REVENUE**  
15 **REQUIREMENT AND RATE INCREASE COMPARE TO THE**  
16 **COMPANY'S DIRECT FILING?**

17 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
Company-Direct	\$10,510,100	\$3,066,624	41.18%
Company-Interim	\$ 8,795,674	\$1,349,246	18.12%

21 **Q. WHY IS THE COMPANY SEEKING INTERIM RATES?**

22 A. Because it needs the money. The Company filed its most recent application for  
23 new rates on September 25, 2007, using a December 31, 2006 test year, and the  
24 application was found sufficient one month later. The case was then suspended  
25 until late July, 2008, pending the outcome of the remand case concerning  
26 Decision No. 68176. This means that CCWC is still charging rates approved

1 nearly three years ago based on a test year ending almost five years ago despite  
2 having filed a rate case a year ago.

3 **Q. BUT NOW THAT THE STAY HAS BEEN LIFTED, WON'T THE**  
4 **COMPANY GET RATE INCREASES?**

5 A. I assume so, but when? In another 8 or 10 months? That is too long. Even using  
6 the conservative interim revenue increase, the Company will lose several hundred  
7 thousand more dollars. The stay the Commission approved has already cost the  
8 Company several hundred thousand dollars in revenues. And it needs to be  
9 remembered that even after new rates are approved, a full year of new revenues  
10 will not be realized until at least one year later. It is simply taking too long to  
11 approve rate increases for this Company. The bleeding needs to be slowed, if not  
12 stopped all together.

13 **Q. WHAT RETURNS IS THE COMPANY REALIZING?**

14 A. The Company had a 3.76 percent return on original cost rate base at the end of  
15 2006. *See* Schedule Interim A-1. Just as important, the return on common equity  
16 for the 2006 was only 1.93 percent. *See* Schedule Interim A-2. The low return on  
17 equity continued in 2007, as the Company's audited financial statements shows a  
18 1.74 percent return on equity. *See* Hanford Interim Testimony ("Hanford It."),  
19 Exhibit A. In Decision No. 68176, this Commission determined that the weighted  
20 cost of capital and the cost of equity were 7.6 percent and 9.2 percent,  
21 respectively.

22 The Test Year (2006) in the current case was the first full year in which the  
23 rates approved in Decision No. 68176 were in effect and the Company failed to  
24 earn anything close to the weighted cost of capital or the return on equity. While  
25 the Company recognizes that it is not guaranteed a specific rate of return and  
26 earnings level, it is entitled to an opportunity to earn its authorized rate of return.

1 The low actual returns are severely impacting the Company's revenues, and its  
2 ability to attract capital. *Id.* at 7. The request for interim rates will help alleviate  
3 the detrimental impact of earnings attrition due to inflation and other cost  
4 increases incurred since 2003, and additional plant investment.

5 **Q. WILL THE INTERIM INCREASE BE ENOUGH TO IMPROVE THE**  
6 **COMPANY'S FINANCIAL PICTURE?**

7 A. Not entirely, but if the Commission moves quickly to process and approve interim  
8 rates, then the Company would increase its revenue by roughly \$110,000 each  
9 month the interim rates are in place. While that amount is less than half of the  
10 permanent monthly revenue increase sought, right now every dollar would help to  
11 increase the earnings picture. A Company with these sorts of anemic returns is  
12 leaving its shareholders subsidizing service to the ratepayers. On the other hand,  
13 fast processing and approval of interim rates would send the signal that the  
14 Commission does care about the financial viability of all of the utilities it  
15 regulates.

16 **Q. TO WHAT DO YOU ATTRIBUTE THE LOW EARNINGS LEVELS**  
17 **DESPITE THE RATE INCREASE GRANTED IN DECISION NO. 68176?**

18 A. First, before closing its December 31, 2006 test year, the Company had added  
19 over \$8.0 million of capital improvements to the rate base the Commission  
20 approved in Decision 68176. The Company also has over \$2.2 million of  
21 construction work-in-progress at the end of 2006 (capital provided by the  
22 shareholder) that will not have the opportunity to be recognized until the rate case  
23 after this one. And that does not include the 2007-2010 investment, which I  
24 discuss below. Second, adjusted operating expenses have increased by over  
25 \$1 million since the last test year. Hanford It. at 4.

26 This case illustrates the inherent problem of using historical test years with

1 limited out of period adjustments in setting the revenue requirement on a going-  
2 forward basis. Utilities are always behind in getting recognition of investment  
3 and recognition of increases in operating expenses in their revenue requirements.  
4 Combined with lengthy rate proceedings, the lag from the regulatory process often  
5 translates to the Company being unable to earn its authorized return because it  
6 simply does not have a reasonable opportunity to earn its authorized return. That  
7 is what we have here.

8 **Q. WHY DOES THE COMPANY NEED TO ATTRACT CAPITAL?**

9 A. As shown on Schedule Interim F-3, the Company needs to invest over  
10 \$6.9 million during the next few years (2008-2010) to upgrade its system and  
11 make improvements. Some of these projects have been delayed due to CCWC's  
12 poor earnings, but not every improvement can be delayed indefinitely without  
13 compromising service.

14 **Q. WHAT WERE THE TOTAL ACTUAL CAPITAL EXPENDITURES FOR**  
15 **2007?**

16 A. Over \$2.8 million. *See* Hanford It. at Exhibit A. So, from 2007 through 2010 the  
17 Company expects to expend nearly \$10 million on plant (\$2.8 million plus  
18 \$6.9 million).

19 **Q. IN YOUR OPINION, IS IT REASONABLE TO EXPECT INVESTORS TO**  
20 **PROVIDE CAPITAL WITH THE LOW RATES OF RETURN THE**  
21 **COMPANY HAS EXPERIENCED?**

22 A. Not in my view. The cost of equity determined in the last decision was  
23 9.2 percent. Since 2004, the Company's equity returns have been well below this  
24 level. In fact, in 2004, 2005, and 2006, the annual equity returns have been 2.07  
25 percent, 3.82 percent, and 1.93 percent, respectively. *See* Schedule Interim A-2.

26 Putting aside that any investor would be reluctant to provide equity capital

1 with such low returns and the detrimental impacts of regulatory lag in Arizona,  
2 the Company competes for capital with its sister companies that are located in  
3 California. In California, future test years are used in the rate making process.  
4 The use of future test years mitigates the detrimental impact of lags in recognition  
5 of investment in rate base as well as the detrimental impacts of increases in  
6 operating expenses on earnings. Plus, the shareholders' California operations  
7 have typically been allowed higher returns than those provided by Arizona  
8 regulation. In Golden State Water Company's most recent California rate  
9 proceeding, Golden State Water was authorized a 10.2% return. Decision 08-01-  
10 043 (January 31, 2008), California Public Utilities Commission. You don't need  
11 to be Warren Buffet to figure out that the investors' dollars are better spent in  
12 California than Arizona.

13 **III. SUMMARY OF INTERIM A SCHEDULES.**

14 **Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES.**  
15 **PLEASE DESCRIBE THE SCHEDULES LABELED AS INTERIM A, E,**  
16 **AND F.**

17 **A.** The Interim A-1 schedule is a summary of the rate base, adjusted operating  
18 income, current rate of return, and required rate of return, operating income  
19 deficiency, and the increase in gross revenue. Revenues at present and proposed  
20 rates and customer classifications are also shown on this schedule. As the Interim  
21 A-1 schedule shows, the indicated revenue increase based on the adjusted interim  
22 operating income and adjusted interim rate base is \$1,349,246.

23 The Interim A-2 schedule is a summary of results of operations for the test  
24 year, prior years, and a projected year at present rates and proposed rates.

25 Schedule Interim A-3 contains the Company's capital structure for the test  
26 year and the two prior years.

1 Schedule Interim A-4 contains the plant construction, and plant in service  
2 for the test year and prior years. The projected plant additions are also shown on  
3 this schedule.

4 Schedule Interim A-5 is the summary of the Company's changes in  
5 financial position (cash flow) for the prior two years, the test year at present rates,  
6 and a projected year at present and proposed rates.

7 The Interim E Schedules are based on CCWC's actual operating results, as  
8 reported by the Company in annual reports filed with the Commission. The  
9 Interim E-1 Schedule contains the comparative balance sheet data the years 2004,  
10 2005, and 2006.

11 Schedule Interim E-2, page 1, contains the income statement for the years  
12 2004, 2005, and 2006.

13 Schedule Interim E-3 contains the statements of changes in the Company's  
14 financial position for the test year and the two prior years.

15 Schedule Interim E-4 provides the changes in stockholder's equity.

16 Schedule Interim F-1 contains the results of operations at the present rates  
17 (actual and adjusted), and at proposed rates.

18 Schedule Interim F-2 contains the summary of changes in financial position  
19 (cash flow) for the prior two years, the test year at present rates, and a projected  
20 year at present and proposed rates.

21 Schedule Interim F-3 shows the Company's projected construction  
22 requirements for 2008, 2009, and 2010.

23 **IV. RATE BASE (INTERIM B SCHEDULES).**

24 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**  
25 **LABELED AS THE B SCHEDULES?**

26 **A. Yes. I will start with Schedule Interim B-5, which is the working capital**

1 allowance. The results produced by the "formula method" of computing the  
2 working capital allowance are shown only for informational purposes on Schedule  
3 Interim B-5. The Company is not requesting a working capital allowance in this  
4 case, as reflected on Schedules Interim B-1 and Interim B-2.

5 **Q. HAVE YOU PREPARED A SCHEDULE SHOWING ADJUSTMENTS TO**  
6 **THE ORIGINAL COST RATE BASE?**

7 A. Yes. Schedule Interim B-2, page 1, shows adjustments to the original cost rate  
8 base. Schedules Interim B-2, pages 2 through 5 are the supporting schedules. The  
9 interim rate base adjustments do not include all the adjustments proposed in the  
10 Company's direct filing, but those that are proposed in the interim rate filing are  
11 the same as proposed in the direct filing (with exceptions noted). Additional  
12 details surrounding these adjustments can be found in my direct filing. *See Direct*  
13 *Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 9-12.*

14 The interim B-2 rate base adjustments are, in summary:

15 Adjustment number 1 increases plant-in-service for plant adjustment  
16 approved in Decision No. 68176 that were not recorded on the books.

17 Adjustment 2 removes deferred income tax amounts related to goodwill.  
18 Since goodwill has not been included in rate base, the related deferred tax  
19 amounts should be removed.

20 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE RATE BASE.**

21 A. Adjustment 3 reflects the amortized portion of a regulatory liability of \$760,000  
22 established by the Company in 2005. The regulatory liability reflects one-half of  
23 the gain of \$1,520,000 as a result of an agreement with the Fountain Hills Sanitary  
24 District. The details of this payment, which was essentially a settlement over the  
25 value of two of the Company's wells, is discussed by Mr. Robert Hanford in his  
26 direct testimony in the Company's direct application. *See Direct Testimony of*



1 Robert Hanford ("Hanford Dt.") at 9-10. I also discuss the basis of the regulatory  
2 liability in my direct testimony. *See* Bourassa Dt. at 10-11.

3 **Q. WHAT RATE BASE ADJUSTMENTS MADE IN THE DIRECT FILING**  
4 **WERE EXCLUDED FROM THE INTERIM RATE FILING?**

5 A. Adjustments to plant-in-service to allocate corporate plant, adjustments to  
6 accumulated depreciation including accumulated depreciation on allocated  
7 corporate plant, and adjustments to accumulated amortization of contributions-in-  
8 aid of construction, and proposed Central Arizona Project water allocation costs.  
9 Together, the excluded adjustments would have increased rate base by over  
10 \$1.35 million.

11 **V. INCOME STATEMENT (INTERIM C SCHEDULES).**

12 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**  
13 **THE INCOME STATEMENT AS SHOWN ON SCHEDULES INTERIM C-**  
14 **1 AND C-2.**

15 A. The details of the adjustments are shown on Schedule Interim C-2. The  
16 adjustments are then carried forward to the Interim C-1 schedule, which contains  
17 the adjusted test year income statement. The interim operating income  
18 adjustments do not include all the adjustments proposed in the Company's direct  
19 filing, but those that are proposed in the interim rate filing are the same as  
20 proposed in the direct filing (with exceptions noted). Additional details  
21 surrounding these adjustments can be found in my direct testimony, exhibits and  
22 schedules. *See* Bourassa Dt. at 13-18.

23 Adjustment 1 annualizes revenues to the year-end number of customers for  
24 each meter size. This adjustment is intended to reflect changes in revenues based  
25 on the number of customers at year-end receiving service during the entire 12  
26 months of the test year. *See* Bourassa Dt. at 16-17.

1 Q. PLEASE EXPLAIN WHY THIS ADJUSTMENT DECREASES  
2 REVENUES.

3 A. As was explained in my and Mr. Hanford's direct testimonies, the revenue  
4 annualization reduces revenues due to the fact that at least two golf course  
5 customers are no longer relying on and/or have significantly reduced the use of  
6 potable water for golf course irrigation. The golf courses are instead relying more  
7 and/or exclusively on effluent water. *Id.* at 17, Hanford Dt. at 7-9.

8 Q. PLEASE CONTINUE WITH YOUR TESTIMONY ON THE INTERIM  
9 OPERATING INCOME ADJUSTMENTS.

10 A. Adjustment 2 removes non-utility revenues and expenses to eliminate the effects  
11 on income taxes.

12 Adjustment 3 annualizes purchased power based on additional gallons from  
13 the revenue annualization described above. Adjustment 3 is intended to match  
14 additional revenues from the revenue annualization.

15 Q. WERE THE RATE INCREASES FROM SALT RIVER PROJECT AND  
16 ARIZONA PUBLIC SERVICE THAT OCCURRED IN 2006 AND 2007  
17 CONSIDERED IN YOUR ANNUALIZATION OF PURCHASED POWER?

18 A. No. In CCWC's direct filing, the increases from SRP and APS were considered.  
19 *See* Bourassa Dt. at 18. However, to be conservative for the interim filing, these  
20 increases were ignored.

21 Adjustment 4 reflects the amortization of the shared gain on the settlement  
22 payment by FHSD discussed above. The amortization period proposed is 10  
23 years. The amortization reduces operating expenses by \$76,000 and ultimately  
24 reduces the revenue requirement. *Id.* at 18

25 Adjustment 5 synchronizes interest expense with the Company's FVRB.  
26 The weighted cost of debt from Schedule Interim D-1 is multiplied by the FVRB

1 contained on Schedule B-1 to derive the interest expense for computation of the  
2 income taxes. *Id.* at 18

3 Adjustment 6 reflects the change to incomes taxes at the effective tax rate  
4 under proposed revenues.

5 **Q. WHAT OPERATING INCOME ADJUSTMENTS MADE IN THE DIRECT**  
6 **FILING WERE EXCLUDED FROM THE INTERIM RATE FILING?**

7 A. The Company's direct filing includes adjustments to annualize depreciation  
8 expense, increase property taxes to reflect the impact of a revenue increase, and  
9 annualize purchase power not only reflecting the annualized gallons sold but also  
10 reflecting rate increases from SRP and APS. The impact of the excluded  
11 adjustments would have increased operating expenses by approximately \$82,000.

12 **VI. RATE DESIGN (INTERIM H SCHEDULES)**

13 **Q. WHAT ARE THE COMPANY'S PRESENT RATES**

14 A. The monthly charges at present rates are listed below.

15 All Classes

16 Meter 17 Size	18 Monthly 19 Minimum	20 Gallons included 21 in Monthly Minimum
22 3/4	23 \$ 13.60	24 0
25 1	26 \$ 22.70	0
1 1/2	\$ 45.40	0
2	\$ 73.00	0
3	\$ 146.00	0
4	\$ 227.00	0
6	\$ 454.00	0
8	\$ 730.00	0

1	10	\$ 1,043.00	0
2	12	\$ 1,980.00	0
3	Fire Hydrants used for		
4	Irrigation	\$ 146.00	0
5	Fire Hydrants basic		
6	Service	\$ 0.00	0
7	Fire Sprinkler	\$ 10.00	0

The commodity charges and tiers by meter size are:

Residential, Commercial and Industrial Class

	Meter Size	Tier (gallons)	Charge per 1,000 gallons
12	3/4	1 to 3,000	\$ 1.68
13		3,001 to 9,000	\$ 2.52
14		Over 10,000	\$ 3.03
15	1	1 to 24,000	\$ 2.52
16		Over 24,000	\$ 3.03
17	1 1/2	1 to 60,000	\$ 2.52
18		Over 60,000	\$ 3.03
19	2	1 to 100,000	\$ 2.52
20		Over 100,000	\$ 3.03
21	3	1 to 225,000	\$ 2.52
22		Over 225,000	\$ 3.03
23	4	1 to 350,000	\$ 2.52
24		Over 350,000	\$ 3.03
25	6	1 to 725,000	\$ 2.52

1		Over 725,000	\$ 3.03
2	8	1 to 1,125,000	\$ 2.52
3		Over 1,125,000	\$ 3.03
4	10	1 to 1,500,000	\$ 2.52
5		Over 1,500,000	\$ 3.03
6	12	1 to 2,250,000	\$ 2.52
7		Over 2,250,000	\$ 3.03

8

9 Irrigation Class

10	All Meter Sizes	All gallons	\$1.56
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11 Fire Hydrant Irrigation and Construction Class

12	All Meter Sizes	All gallons	\$1.56
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13 Standpipe (Fire Hydrants)

14	All Meter Sizes	All gallons	\$2.52
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15 Fire Sprinklers

16	All Meter Sizes	All gallons	\$2.52
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17 **Q. WHAT ARE THE COMPANY'S PROPOSED INTERIM RATES?**

18 **A.** The monthly charges at proposed interim rates are listed below.

19 All Classes

20	Meter	Monthly	Gallons included
21	Size	Minimum	in Monthly Minimum
22			
23	3/4	\$ 16.11	0
24	1	\$ 26.88	0
25	1 1/2	\$ 53.76	0
26	2	\$ 86.45	0

1	3	\$ 172.89	0
2	4	\$ 268.81	0
3	6	\$ 537.63	0
4	8	\$ 864.47	0
5	10	\$ 1,235.12	0
6	12	\$ 2,344.72	0
7	Fire Hydrants used for Irrigation	\$ 172.89	0
8	Fire Hydrants basic Service	\$ 0.00	0
9	Fire Sprinkler	\$ 10.00	0

The commodity charges and tiers by meter size are:

Residential, Commercial and Industrial Class

Meter Size	Tier (gallons)	Charge per 1,000 gallons
3/4	1 to 3,000	\$ 1.989
	3,001 to 9,000	\$ 2.984
	Over 10,000	\$ 3.588
1	1 to 24,000	\$ 2.984
	Over 24,000	\$ 3.588
1 1/2	1 to 60,000	\$ 2.984
	Over 60,000	\$ 3.588
2	1 to 100,000	\$ 2.984
	Over 100,000	\$ 3.588
3	1 to 225,000	\$ 2.984
	Over 225,000	\$ 3.588

1	4	1 to 350,000	\$ 2.984
2		Over 350,000	\$ 3.588
3	6	1 to 725,000	\$ 2.984
4		Over 725,000	\$ 3.588
5	8	1 to 1,125,000	\$ 2.984
6		Over 1,125,000	\$ 3.588
7	10	1 to 1,500,000	\$ 2.984
8		Over 1,500,000	\$ 3.588
9	12	1 to 2,250,000	\$ 2.984
10		Over 2,250,000	\$ 3.588

11

12 Irrigation Class

13 All Meter Sizes All gallons \$1.847

14 Fire Hydrant Irrigation and Construction Class

15 All Meter Sizes All gallons \$1.847

16 Standpipe (Fire Hydrants)

17 All Meter Sizes All gallons \$2.984

18 Fire Sprinklers

19 All Meter Sizes All gallons \$2.984

20 **Q. HAS THE COMPANY PROPOSED A CHANGE IN THE RATE DESIGN?**

21 A. No. The interim rates are based on the same rate design the Commission  
 22 established for CCWC in the last rate case. The monthly minimum and  
 23 commodity rates were increased by the approximately same percentage (there are  
 24 very slight differences due to rounding).

25

26

1 **Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED INTERIM**  
2 **RATES ON AN AVERAGE ¾ INCH METERED RESIDENTIAL**  
3 **CUSTOMER?**

4 A. The present monthly bill for a ¾ inch metered residential customer using an  
5 average of 8,450 gallons is \$32.38. The proposed interim monthly bill for a  
6 ¾ inch metered residential customer using an average of 8,450 gallons is \$38.34 –  
7 an increase of \$5.97, or 18.43% over the present rates.

8 **Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED INTERIM**  
9 **RATES ON AN AVERAGE 1 INCH METERED RESIDENTIAL**  
10 **CUSTOMER?**

11 A. The present monthly bill for a 1-inch metered residential customer using an  
12 average of 10,095 gallons is \$48.14. The proposed interim monthly bill for a  
13 1 inch metered residential customer using an average of 10,095 gallons is \$57.00  
14 – an increase of \$8.86, or 18.41% over the present rates.

15 The impact on the average bill for all meter sizes and class can be found on  
16 Schedule Interim H-2, page 2.

17 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE**  
18 **MISCELLANEOUS SERVICE CHARGES UNDER THE INTERIM**  
19 **RATES?**

20 A. No. The Company did not request a change to miscellaneous service charges in  
21 its direct filing either.

22 **Q. ARE THERE ANY CHANGES TO THE METER AND SERVICE LINE**  
23 **INSTALLATION CHARGES?**

24 A. No. The Company did not request a change to meter and service line charges in  
25 its direct filing either.

26



1 Q. DOES THAT CONCLUDE YOUR TESTIMONY IN SUPPORT OF  
2 INTERIM RATES?

3 A. Yes.  
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**TESTIMONY OF THOMAS J. BOURASSA  
IN SUPPORT OF MOTION FOR APPROVAL  
OF INTERIM RATES AND PRELIMINARY ORDER**

**DOCKET NO: W-02113A-07-0551**

# **Schedules A - H**

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Schedule Interim A-1  
Page 1  
Witness: Bourassa

Line  
No.

1	Original Cost Rate Base			\$	21,599,023	
2						
3	Adjusted Operating Income				813,074	
4						
5	Current Rate of Return				3.76%	
6						
7	Indicated Operating Income			\$	1,641,526	
8						
9	Rate of Return on Rate Base <sup>1</sup>				7.60%	<sup>1</sup>
10						
11	Operating Income Deficiency			\$	828,452	
12						
13	Gross Revenue Conversion Factor				1.6286	
14						
15	Indicated Increase in Gross Revenue					
16	Requirement Based on Return Authorized in Decision 68176			\$	1,349,246	
17						
18	Requested Interim Increase in Gross Revenue Requirement			\$	1,349,246	
19						
20	<b>Customer</b>	<b>Present</b>	<b>Requested</b>	<b>Dollar</b>	<b>Percent</b>	
21	<b>Classification</b>	<b>Rates</b>	<b>Rates</b>	<b>Increase</b>	<b>Increase</b>	
22	<b>Residential, Commerical, Industrial</b>					
23	3/4 Inch	\$ 3,524,075	\$ 4,173,499	\$ 649,424	18.43%	
24	1 Inch	2,441,283	2,890,812	449,529	18.41%	
25	1.5 Inch	172,583	204,362	31,780	18.41%	
26	2 Inch	345,894	409,597	63,703	18.42%	
27	3 Inch	24,229	28,691	4,462	18.42%	
28	4 Inch	34,290	40,604	6,314	18.42%	
29	<b>Irrigation</b>					
30	3/4 Inch	69,200	81,955	12,755	18.43%	
31	1 Inch	178,745	211,667	32,922	18.42%	
32	1.5 Inch	134,012	158,695	24,683	18.42%	
33	2 Inch	161,987	191,827	29,840	18.42%	
34	4 Inch	152,769	180,909	28,140	18.42%	
35	6 Inch	322,475	381,874	59,400	18.42%	
36	<b>FH/Construction</b>					
37	3/4 Inch	181	215	33	18.45%	
38	1 Inch	1,357	1,607	250	18.42%	
39	2 Inch	646	765	119	18.42%	
40	3 Inch	84,704	100,303	15,600	18.42%	
41	4 Inch	11,424	13,528	2,104	18.41%	
42	<b>Fire Sprinkler</b>	5,770	5,772	2	0.03%	
43	<b>Reconciliation Amount GL Revenues</b>	5,431	(222)	(5,653)		
44	<b>Subtotal</b>	\$ 7,671,054	\$ 9,076,460	\$ 1,405,407	18.32%	
45	<b>Revenue Annualization</b>	(306,643)	(363,131)	(56,488)	18.42%	
46	<b>Miscellaneous Revenues</b>	82,289	82,289	-	0.00%	
47	<b>Total of Water Revenues (a)</b>	\$ 7,446,700	\$ 8,795,618	\$ 1,348,918	18.11%	

**SUPPORTING SCHEDULES:**

Interim B-1  
Interim C-1  
Interim C-3  
Interim H-1

<sup>1</sup> Weighted cost of capital from Decision 68176

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Summary of Results of Operations

Exhibit  
Schedule Interim A-2  
Page 1  
Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2004	12/31/2005	Actual 12/31/2006	Adjusted 12/31/2006	Present Rates 12/31/2007	Proposed Rates 12/31/2007
1	Gross Revenues	\$ 6,544,219	\$ 7,019,051	\$ 7,755,907	\$ 7,446,428	\$ 7,446,428	\$ 8,795,674
2							
3	Revenue Deductions and	5,564,193	6,348,548	6,679,517	6,633,354	6,633,354	7,154,148
4	Operating Expenses						
5							
6	Operating Income	\$ 980,026	\$ 670,503	\$ 1,076,390	\$ 813,074	\$ 813,074	\$ 1,641,526
7							
8	Other Income and	4,136	789,010	(27,838)	-	-	-
9	Deductions						
10							
11	Interest Expense	(472,619)	(478,806)	(543,433)	(272,619)	(272,619)	(272,619)
12							
13	Net Income	\$ 511,543	\$ 980,707	\$ 505,119	\$ 540,454	\$ 540,454	\$ 1,368,907
14							
15	Earned Per Average						
16	Common Share	1.11	2.13	1.10	1.17	1.17	2.97
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	1.04%	1.90%	0.94%	1.01%	0.96%	2.42%
25							
26	Return on Year End						
27	Capital	1.03%	1.83%	0.94%	1.01%	0.91%	2.30%
28							
29	Return on Average						
30	Common Equity	2.09%	3.89%	1.95%	2.08%	1.99%	4.97%
31							
32	Return on Year End						
33	Common Equity	2.07%	3.82%	1.93%	2.06%	1.93%	4.74%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	2.80	2.77	2.43	4.23	4.23	9.18
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	2.07	2.99	1.81	3.85	3.85	6.02
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	Interim C-1						
45	Interim E-2						
46	Interim F-1						

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Summary of Capital Structure

Exhibit  
Schedule Interim A-3  
Page 1  
Witness: Bourassa

Line No.		Prior Years Ended		Test Year	Projected Year
	Description:	12/31/2004	12/31/2005	12/31/2006	12/31/2007
1					
2					
3	Short-Term Debt	\$ 835,576	\$ 2,159,236	\$ 1,400,000	\$ 1,400,000
4					
5	Long-Term Debt	7,803,309	7,205,309	6,865,000	6,585,000
6					
7	Total Debt	\$ 8,638,885	\$ 9,364,545	\$ 8,265,000	\$ 7,985,000
8					
9					
10	Preferred Stock	-	-	-	-
11					
12	Common Equity	24,689,128	25,669,835	26,179,180	28,860,623
13					
14					
15	Total Capital & Debt	\$ 33,328,013	\$ 35,034,380	\$ 34,444,180	\$ 36,845,623
16					
17					
18	Capitalization Ratios:				
19					
20	Short-Term Debt	2.51%	6.16%	4.06%	3.80%
21					
22	Long-Term Debt	25.92%	26.73%	24.00%	21.67%
23					
24	Total Debt	25.92%	26.73%	24.00%	21.67%
25					
26					
27	Preferred Stock	-	-	-	-
28					
29	Common Equity	74.08%	73.27%	76.00%	78.33%
30					
31					
32	Total Capital	100.00%	100.00%	100.00%	100.00%
33					
34	Weighted Cost of				
35	Short-Term Debt	0.15%	0.38%	0.25%	0.23%
36					
37	Weighted Cost of				
38	Long-Term Debt	1.38%	1.42%	1.28%	1.15%
39					
40	Weighted Cost of				
41	Senior Capital	1.53%	1.80%	1.53%	1.39%
42					
43					
44	<u>SUPPORTING SCHEDULES:</u>				
45	Interim E-1				
46	Interim D-1				

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Construction Expenditures  
and Gross Utility Plant in Service

Exhibit  
Schedule Interim A-4  
Page 1  
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
4	Prior Year Ended 12/31/2004	4,069,806	4,584,139	43,264,290
5				
6	Prior Year Ended 12/31/2005	3,893,252	5,700,393	48,964,683
7				
8	Test Year Ended 12/31/2006	2,283,627	2,088,570	51,053,253
9				
10	Projected Year Ended 12/31/2007	8,044,478	8,239,535	59,292,788
11				
12				
13				
14				
15	<u>SUPPORTING SCHEDULES:</u>			
16	B-2			
17	E-5			
18	F-3			
19				
20				

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Summary Statements of Cash Flows

Exhibit  
Schedule A-5  
Page 1  
Witness: Bourassa

Line No.	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2005	Test Year Ended 12/31/2006	Projected Year Present Rates 12/31/2007	Projected Year Proposed Rates 12/31/2007
1					
2					
3					
4					
5					
6					
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9					
10					
11					
12					
13					
14					
15					
16					
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**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Summary of Rate Base

Exhibit  
Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Rate Base Used for Rev. Req.
1			
2	Gross Utility Plant in Service	\$ 51,053,250	\$ 51,053,250
3	Less: Accumulated Depreciation	<u>14,947,296</u>	<u>14,947,296</u>
4			
5	Net Utility Plant in Service	\$ 36,105,954	\$ 36,105,954
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	6,557,243	6,557,243
10	Contributions in Aid of		
11	Construction - Net of amortization	6,188,963	6,188,963
12	Customer Meter Deposits	819,845	819,845
13	Deferred Income Taxes & Credits	925,896	925,896
14	Investment tax Credits	-	-
15	Shared Gain on Well	646,000	646,000
16			
17	<u>Plus:</u>		
18	Unamortized Debt Issuance		
19	Costs	424,010	424,010
20	Prepayments	192,485	192,485
21	Materials and Supplies	14,521	14,521
22	Deferred Regulatory Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 21,599,023</u>	<u>\$ 21,599,023</u>
27			
28			
29			
30	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>
31	Interim B-2		Interim A-1
32	Interim B-3		
33	Interim B-5		
34	Interim E-1		
35			



**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule Interim B-2  
Page 1  
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Label	Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	\$ 51,020,714	1	32,536	\$ 51,053,250
3					
4	<b>Less:</b>				
5	Accumulated				
6	Depreciation	14,947,296			14,947,296
7					
8					
9	Net Utility Plant				
10	in Service	\$ 36,073,418			\$ 36,105,954
11					
12	<b>Less:</b>				
13	Advances in Aid of				
14	Construction	6,557,243			6,557,243
15					
16	Contributions in Aid of				
17	Construction - Net	6,188,963			6,188,963
18					
19	Customer Meter Deposits	819,845			819,845
20	Deferred Income Taxes	4,070,137	2	(3,144,241)	925,896
21	Investment Tax Credits	-			-
22	Shared Gain on Well	760,000	3	(114,000)	646,000
23					
24	<b>Plus:</b>				
25	Unamortized Debt Issuance				
26	Costs	424,010			424,010
27	Prepayments	192,485			192,485
28	Materials and Supplies	14,521			14,521
29	Deferred Regulatory Assets				-
30	Working capital	-			-
31					
32					
33	Total	<u>\$ 18,308,246</u>			<u>\$ 21,599,023</u>

**SUPPORTING SCHEDULES:**  
Interim B-2, pages 1-7  
Interim E-1

**RECAP SCHEDULES:**  
Interim B-1

**Chaparral City Water Company**  
 Test Year Ended December 31, 2006  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 1

Exhibit  
 Schedule Interim B-2  
 Page 2  
 Witness: Bourassa

Line No.		
1	<u>Adjustment to Reconcile Plant to Prior Decision 68176</u>	
2		
3	Per Staff Rate Base Adjustment #2	
4	Meters	\$ 3,556
5	Pumping Equipment	23,294
6		
7	Per RUCO Expense Adjustment #12	
8	Water Treatment Plant	
9	(Temp Office Space - pac Van Leasing)	5,686
10		
11	Total	<u>\$ 32,536</u>
12		
13		
14		
15		
16		
17	Increase (Decrease) to Plant -in-service	<u>\$ 32,536</u>
18		
19		
20		
21		
22		
23		
24		
25		
26		

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Original Cost Rate Base Proforma Adjustments  
Adjustment 2

Exhibit  
Schedule Interim B-2  
Page 3  
Witness: Bourassa

Line No.			
1	<u>Remove Deferred Income Taxes Unrelated to Rate Base Items</u>		
2			
3			
4	Deferred Income Taxes	\$	4,070,137
5	Less: Amounts related to Goodwill	3,119,603	
6	Amounts related to Other	(65,717)	
7	Amounts related to Other - D.T. Asset	90,355	
8	Total Reductions		<u>3,144,241</u>
9			
10	Deferred Income Taxes, Net	\$	925,896
11	Deferred Income Taxes per Company Schedule E-1		<u>4,070,137</u>
12	Difference	\$	<u>(3,144,241)</u>
13			
14			
15			
16			
17	Increase (Decrease) to Deferred Income Taxes	\$	<u>(3,144,241)</u>
18			
19			
20			
21			
22			
23			

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Schedule Interim B-2  
Page 4  
Witness: Bourassa

Line No.	Computation of Amortization on Shared Gain on Well (using half-year convention)	
1		
2		
3		
4	Shared Gain on Well <sup>1</sup>	\$ 760,000 [1]
5	Amortization Period (years)	10 [2]
6	Annual Amortization	\$ 76,000 [3] = [1] divided by [2]
6	Number of years	1.5 [4]
7	Total Amortization	\$ 114,000 [5] = [3] times [4]
8		
9		
10		
11		
12		
13		
14	Increase (Decrease) to Shared Gain on Well	\$ (114,000)
15		
16		
17		
18		
19		
20		

<sup>1</sup> See testimony. Settlement executed February 2005.

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Computation of Working Capital

Exhibit  
Schedule B-5  
Page 1  
Witness: Bourassa

Line

No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	366,881
3	Pumping Power (1/24 of Pumping Power)		22,913
4	Purchased Water (1/24 of Purchased Water)		38,921
5			
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>428,714</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
16	E-1	B-1	
17			

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Income Statement  
Revenue Requirement and Increase

Exhibit  
Schedule Interim C-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Indicated Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>						
2	Metered Water Revenues	\$ 7,673,618	1	\$ (309,479)	\$ 7,364,139	\$ 1,349,246	\$ 8,713,385
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	82,289			82,289		82,289
5		<u>\$ 7,755,907</u>		<u>\$ (309,479)</u>	<u>\$ 7,446,428</u>	<u>\$ 1,349,246</u>	<u>\$ 8,795,674</u>
6	<b>Operating Expenses</b>						
7	Salaries and Wages	\$ 924,576			\$ 924,576		\$ 924,576
8	Purchased Water	934,095			934,095		934,095
9	Purchased Power	618,039	3	(68,137)	549,902		549,902
10	Chemicals	127,457			127,457		127,457
11	Repairs and Maintenance	104,609			104,609		104,609
12	Office Supplies and Expense	19,800			19,800		19,800
13	Outside Services	266,544			266,544		266,544
14	Water Testing	43,458			43,458		43,458
15	Rents	-			-		-
16	Transportation Expenses	70,430			70,430		70,430
17	Insurance - General Liability	(1,294)			(1,294)		(1,294)
18	Insurance - health and Life	-			-		-
19	Reg. Commission Exp. - Rate Case	168,158			168,158		168,158
20	Miscellaneous Expense	1,243,108			1,243,108		1,243,108
21	Depreciation Expense	1,632,458			1,632,458		1,632,458
22	Amortization of Gain on Well	-	4	(76,000)	(76,000)		(76,000)
23	Amortization of CAP	-			-		-
24	Taxes Other Than Income	44,200			44,200		44,200
25	Property Taxes	242,105			242,105		242,105
26	Income Tax	241,774	6	97,974	339,748	520,794	860,542
27	<b>Total Operating Expenses</b>	<u>\$ 6,679,517</u>		<u>\$ (46,163)</u>	<u>\$ 6,633,354</u>	<u>\$ 520,794</u>	<u>\$ 7,154,148</u>
28	<b>Operating Income</b>	<u>\$ 1,076,390</u>		<u>\$ (263,316)</u>	<u>\$ 813,074</u>	<u>\$ 828,452</u>	<u>\$ 1,641,526</u>
29	<b>Other Income (Expense)</b>						
30	Interest Income	64,397	2a	(64,397)	-		-
31	Other income (loss)	(91,835)	2b	91,835	-		-
32	Interest Expense	(543,433)	5	270,814	(272,619)		(272,619)
33	Other Expense	(400)	2c	400	-		-
34		-			-		-
35	<b>Total Other Income (Expense)</b>	<u>\$ (571,271)</u>		<u>\$ 298,652</u>	<u>\$ (272,619)</u>	<u>\$ -</u>	<u>\$ (272,619)</u>
36	<b>Net Profit (Loss)</b>	<u>\$ 505,119</u>		<u>\$ 35,335</u>	<u>\$ 540,454</u>	<u>\$ 828,452</u>	<u>\$ 1,368,907</u>

SUPPORTING SCHEDULES:

Interim C-2

Interim E-2

RECAP SCHEDULES:

Interim A-1

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Adjustments to Revenues and Expenses

Exhibit  
Schedule Interim C-2  
Page 1  
Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>					
	<u>1</u> Revenue Annualization	<u>2</u> Remove Other Inc./Oth. Expense	<u>3</u> Annualize Purchased Power	<u>4</u> Amortization Shared Gain	<u>5</u> Interest Synchronization	<u>6</u> Income Taxes
2	(309,479)					
3						
4						
5			(68,137)	(76,000)		97,974
6						(46,163)
7						
8	(309,479)	-	68,137	76,000	-	(97,974)
9						
10						
11					270,814	
12						
13		27,838				
14						
15						
16	(309,479)	27,838	68,137	76,000	270,814	(97,974)
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						

  

Line No.	<u>Adjustments to Revenues and Expenses</u>					
	<u>7</u> Intentionally Left Blank	<u>8</u> Intentionally Left Blank	<u>9</u> Intentionally Left Blank	<u>10</u> Intentionally Left Blank	<u>11</u> Intentionally Left Blank	<u>12</u> Intentionally Left Blank
20						
21						
22						
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29						
30						
31						
32						
33						
34						
35						
36						

**Chaparral City Water Company**

3/4 Inch Residential

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule Interim C-2

Page 1.1

Witness: Bourassa

Line

No.

Year End Number of Customers

Actual Customers

Increase in Number of Customers/Bills

Average Revenue / Present Rates

Revenue Annualization / Present Rates

Increase in Number of Customers

Average Revenue / Proposed Rates

Revenue Annualization / Proposed Rates

Additional Gallons to be Produced

Year End Number of Customers

Actual Customers

Increase in Number of Customers/Bills

Average Revenue / Present Rates

Revenue Annualization / Present Rates

Increase in Number of Customers

Average Revenue / Proposed Rates

Revenue Annualization / Proposed Rates

Additional Gallons to be Produced

	Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
Year End Number of Customers	8,373	8,373	8,373	8,373	8,373	8,373	8,373
Actual Customers	8,380	8,370	8,383	8,390	8,380	8,364	8,353
Increase in Number of Customers/Bills	(7)	3	(10)	(17)	(7)	9	20
Average Revenue / Present Rates	\$ 31.10	\$ 29.04	\$ 28.44	\$ 30.82	\$ 30.58	\$ 37.09	\$ 39.14
Revenue Annualization / Present Rates	\$ (218)	\$ 87	\$ (284)	\$ (524)	\$ (214)	\$ 334	\$ 763
Increase in Number of Customers	(7)	3	(10)	(17)	(7)	9	20
Average Revenue / Proposed Rates	\$ 36.83	\$ 34.40	\$ 33.68	\$ 36.50	\$ 36.22	\$ 43.93	\$ 46.35
Revenue Annualization / Proposed Rates	\$ (258)	\$ 103	\$ (337)	\$ (621)	\$ (254)	\$ 395	\$ 927
Additional Gallons to be Produced	(55,604)	21,385	(68,870)	(133,173)	(54,174)	90,894	215,479
Year End Number of Customers	8,373	8,373	8,373	8,373	8,373	8,373	8,373
Actual Customers	8,362	8,350	8,355	8,355	8,373	8,373	8,373
Increase in Number of Customers/Bills	11	23	18	18	-	-	61
Average Revenue / Present Rates	\$ 33.41	\$ 35.99	\$ 31.66	\$ 32.67	\$ 30.44	-	-
Revenue Annualization / Present Rates	\$ 367	\$ 828	\$ 570	\$ 588	\$ -	-	\$ 2,317
Increase in Number of Customers	11	23	18	18	-	-	-
Average Revenue / Proposed Rates	\$ 39.56	\$ 42.63	\$ 37.50	\$ 38.69	\$ 36.05	-	-
Revenue Annualization / Proposed Rates	\$ 367	\$ 828	\$ 570	\$ 588	\$ -	-	\$ 2,744
Additional Gallons to be Produced	97,466	223,956	147,029	154,188	-	-	638,575



**Chaparral City Water Company**

1 Inch Residential

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule Interim C-2

Page 1.2

Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	4,118	4,118	4,118	4,118	4,118	4,118	4,118
2	Actual Customers	3,841	3,860	3,910	3,895	3,940	4,028	4,057
3	Increase in Number of Customers/Bills	277	258	208	223	178	90	61
4	Average Revenue / Present Rates	\$ 45.93	\$ 43.43	\$ 42.61	\$ 45.87	\$ 45.80	\$ 52.16	\$ 54.23
5	Revenue Annualization / Present Rates	\$ 12,723	\$ 11,205	\$ 8,864	\$ 10,229	\$ 8,152	\$ 4,694	\$ 3,308
6								
7	Increase in Number of Customers	277	258	208	223	178	90	61
8	Average Revenue / Proposed Rates	\$ 54.39	\$ 51.43	\$ 50.46	\$ 54.32	\$ 54.23	\$ 61.76	\$ 64.22
9	Revenue Annualization / Proposed Rates	\$ 15,066	\$ 13,268	\$ 10,496	\$ 12,112	\$ 9,653	\$ 5,559	\$ 3,917
10	Additional Gallons to be Produced	2,553,562	2,122,337	1,643,722	2,050,272	1,631,380	1,052,111	763,324
11								
12								
13								
14								
15	Year End Number of Customers	4,118	4,118	4,118	4,118	4,118	4,118	4,118
16	Actual Customers	4,064	4,080	4,117	4,091	4,118		
17	Increase in Number of Customers/Bills	54	38	1	27	-		1,415
18	Average Revenue / Present Rates	\$ 49.86	\$ 53.76	\$ 48.12	\$ 48.22	\$ 46.99		
19	Revenue Annualization / Present Rates	\$ 2,692	\$ 2,043	\$ 48	\$ 1,302	\$ -		\$ 65,260
20								
21	Increase in Number of Customers	54	38	1	27	-		
22	Average Revenue / Proposed Rates	\$ 59.04	\$ 63.66	\$ 56.99	\$ 57.09	\$ 55.64		\$ 77,276
23	Revenue Annualization / Proposed Rates	\$ 2,692	\$ 2,043	\$ 48	\$ 1,302	\$ -		13,150,567
24	Additional Gallons to be Produced	581,972	468,413	10,089	273,385	-		

**Chaparral City Water Company**

1 1/2 Inch Residential

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit  
Schedule Interim C-2  
Page 1.3  
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	22	22	22	22	22	22	22
2	Actual Customers	20	20	21	21	21	21	22
3	Increase in Number of Customers/Bills	2	2	1	1	1	1	-
4	Average Revenue / Present Rates	\$ 137.51	\$ 114.83	\$ 120.58	\$ 125.86	\$ 119.32	\$ 112.48	\$ 129.19
5	Revenue Annualization / Present Rates	\$ 275	\$ 230	\$ 121	\$ 126	\$ 119	\$ 112	\$ -
6								
7	Increase in Number of Customers	2	2	1	1	1	1	-
8	Average Revenue / Proposed Rates	\$ 162.83	\$ 135.97	\$ 142.78	\$ 149.04	\$ 141.29	\$ 133.19	\$ 152.98
9	Revenue Annualization / Proposed Rates	\$ 326	\$ 272	\$ 143	\$ 149	\$ 141	\$ 133	\$ -
10	Additional Gallons to be Produced	73,101	55,101	29,834	31,929	29,334	26,620	-
11								
12								
13								
14	Year End Number of Customers	Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06		Total Year
15	Actual Customers	22	22	22	22	22		
16	Increase in Number of Customers/Bills	23	22	22	22	22		
17	Average Revenue / Present Rates	(1)	-	-	-	-		7
18	Revenue Annualization / Present Rates	\$ 122.81	\$ 132.63	\$ 112.98	\$ 111.38	\$ 107.77		
19		\$ (123)	\$ -	\$ -	\$ -	\$ -		\$ 860
20								
21	Increase in Number of Customers	(1)	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 145.42	\$ 157.05	\$ 133.79	\$ 131.89	\$ 127.62		
23	Revenue Annualization / Proposed Rates	\$ (123)	\$ -	\$ -	\$ -	\$ -		\$ 1,018
24	Additional Gallons to be Produced	(30,718)	-	-	-	-		215,200

**Chaparral City Water Company**

2 Inch Residential

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule Interim C-2

Page 1.4

Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06	
1	Year End Number of Customers	39	39	39	39	39	39	39	
2	Actual Customers	38	39	39	39	39	39	39	
3	Increase in Number of Customers/Bills	1	-	-	-	-	-	-	
4	Average Revenue / Present Rates	\$ 253.25	\$ 216.80	\$ 216.25	\$ 240.19	\$ 251.05	\$ 289.04	\$ 320.32	
5	Revenue Annualization / Present Rates	\$ 253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
6									
7	Increase in Number of Customers	1	-	-	-	-	-	-	
8	Average Revenue / Proposed Rates	\$ 299.89	\$ 256.73	\$ 256.08	\$ 284.43	\$ 297.28	\$ 342.27	\$ 379.30	
9	Revenue Annualization / Proposed Rates	\$ 300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
10	Additional Gallons to be Produced	71,527	-	-	-	-	-	-	
11									
12									
13									
14									
15	Year End Number of Customers	39	39	39	39	39	39	39	
16	Actual Customers	39	39	39	39	39	39	39	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-	-	1
18	Average Revenue / Present Rates	\$ 291.92	\$ 282.84	\$ 187.47	\$ 297.89	\$ 234.12			
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -			\$ 253
20									
21	Increase in Number of Customers	-	-	-	-	-			
22	Average Revenue / Proposed Rates	\$ 345.68	\$ 334.93	\$ 221.99	\$ 352.75	\$ 277.24			
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -			\$ 300
24	Additional Gallons to be Produced	-	-	-	-	-			71,527

**Chaparral City Water Company**

3 Inch Residential

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule Interim C-2

Page 1.5

Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	3	3	3	3	3	3	3
2	Actual Customers	3	2	2	2	2	3	2
3	Increase in Number of Customers/Bills	-	1	1	1	1	-	1
4	Average Revenue / Present Rates	\$ 269.90	\$ 307.28	\$ 336.26	\$ 365.24	\$ 363.98	\$ 334.16	\$ 417.53
5	Revenue Annualization / Present Rates	\$ -	\$ 307	\$ 336	\$ 365	\$ 364	\$ -	\$ 418
6								
7	Increase in Number of Customers	-	1	1	1	1	-	1
8	Average Revenue / Proposed Rates	\$ 319.60	\$ 363.87	\$ 398.18	\$ 432.50	\$ 431.01	\$ 395.70	\$ 494.42
9	Revenue Annualization / Proposed Rates	\$ -	\$ 364	\$ 398	\$ 432	\$ 431	\$ -	\$ 494
10	Additional Gallons to be Produced	-	64,001	75,501	87,001	86,501	-	107,750
11								
12								
13								
14								
15	Year End Number of Customers	3	3	3	3	3	3	3
16	Actual Customers	3	3	3	3	3	3	3
17	Increase in Number of Customers/Bills	-	-	-	-	-	-	5
18	Average Revenue / Present Rates	\$ 289.22	\$ 332.48	\$ 304.76	\$ 335.84	\$ 277.46		
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,790	
20								
21	Increase in Number of Customers	-	-	-	-	-	-	
22	Average Revenue / Proposed Rates	\$ 342.48	\$ 393.71	\$ 360.88	\$ 397.68	\$ 328.56		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,120	
24	Additional Gallons to be Produced	-	-	-	-	-	420,752	

**Chaparral City Water Company**

3/4 Commercial

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule Interim C-2

Page 1.6

Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	115	115	115	115	115	115	115
2	Actual Customers	116	116	114	115	113	114	115
3	Increase in Number of Customers/Bills	(1)	(1)	1	-	2	1	-
4	Average Revenue / Present Rates	\$ 48.41	\$ 42.45	\$ 42.53	\$ 45.71	\$ 44.38	\$ 52.16	\$ 57.72
5	Revenue Annualization / Present Rates	\$ (48)	\$ (42)	\$ 43	\$ -	\$ 89	\$ 52	\$ -
6								
7	Increase in Number of Customers	(1)	(1)	1	-	2	1	-
8	Average Revenue / Proposed Rates	\$ 57.34	\$ 50.27	\$ 50.36	\$ 54.14	\$ 52.56	\$ 61.77	\$ 68.35
9	Revenue Annualization / Proposed Rates	\$ (57)	\$ (50)	\$ 50	\$ -	\$ 105	\$ 62	\$ -
10	Additional Gallons to be Produced	(13,005)	(11,035)	11,062	-	23,346	14,242	-
11								
12								
13								
14								
15	Year End Number of Customers	115	115	115	115	115	115	115
16	Actual Customers	115	115	116	117	115	115	115
17	Increase in Number of Customers/Bills	-	-	(1)	(2)	-	-	(1)
18	Average Revenue / Present Rates	\$ 49.68	\$ 52.52	\$ 44.52	\$ 49.13	\$ 34.73	-	-
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ (45)	\$ (98)	\$ -	\$ -	\$ (50)
20								
21	Increase in Number of Customers	-	-	(1)	(2)	-	-	-
22	Average Revenue / Proposed Rates	\$ 58.83	\$ 62.20	\$ 52.73	\$ 58.18	\$ 41.12	-	-
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ (45)	\$ (98)	\$ -	\$ -	\$ (59)
24	Additional Gallons to be Produced	-	-	(11,720)	(26,479)	-	-	(13,590)

**Chaparral City Water Company**

1 Inch Commercial

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit  
Schedule Interim C-2  
Page 1.7  
Witness: Bourassa

Line No.	Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	117	117	117	117	117	117	117
2	112	113	112	112	112	113	114
3	5	4	5	5	5	4	3
4	\$ 58.36	\$ 66.23	\$ 63.61	\$ 69.71	\$ 68.26	\$ 91.36	\$ 92.10
5	\$ 292	\$ 265	\$ 318	\$ 349	\$ 341	\$ 365	\$ 276
6							
7	5	4	5	5	5	4	3
8	\$ 69.11	\$ 78.43	\$ 75.32	\$ 82.55	\$ 80.83	\$ 108.18	\$ 109.06
9	\$ 346	\$ 314	\$ 377	\$ 413	\$ 404	\$ 433	\$ 327
10	70,761	69,099	81,163	93,283	90,404	106,798	80,830
11							
12							
13							
14							
15	Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06		Total Year
16	117	117	117	117	117		
17	113	117	114	117	117		
18	4	-	3	-	-		38
19	\$ 66.40	\$ 70.17	\$ 58.27	\$ 59.66	\$ 53.16		
20	\$ 266	\$ -	\$ 175	\$ -	\$ -		\$ 2,647
21							
22	4	-	3	-	-		
23	\$ 78.63	\$ 83.09	\$ 69.00	\$ 70.65	\$ 62.94		\$ 3,134
24	\$ 266	\$ -	\$ 175	\$ -	\$ -		704,047
	69,365	-	42,343	-	-		

**Chaparral City Water Company**

1 1/2 Inch Commercial

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit  
Schedule Interim C-2  
Page 1.8  
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	67	67	67	67	67	67	67
2	Actual Customers	65	65	65	66	66	65	66
3	Increase in Number of Customers/Bills	2	2	2	1	1	2	1
4	Average Revenue / Present Rates	\$ 154.90	\$ 150.64	\$ 136.31	\$ 147.52	\$ 147.67	\$ 185.11	\$ 198.12
5	Revenue Annualization / Present Rates	\$ 310	\$ 301	\$ 273	\$ 148	\$ 148	\$ 370	\$ 198
6								
7	Increase in Number of Customers	2	2	2	1	1	2	1
8	Average Revenue / Proposed Rates	\$ 183.43	\$ 178.38	\$ 161.41	\$ 174.68	\$ 174.86	\$ 219.19	\$ 234.60
9	Revenue Annualization / Proposed Rates	\$ 367	\$ 357	\$ 323	\$ 175	\$ 175	\$ 438	\$ 235
10	Additional Gallons to be Produced	86,909	83,524	72,155	40,523	40,584	110,878	60,500
11								
12								
13								
14								
15	Year End Number of Customers	67	67	67	67	67	67	12
16	Actual Customers	66	67	67	67	67	67	
17	Increase in Number of Customers/Bills	1	-	-	-	-	-	
18	Average Revenue / Present Rates	\$ 187.15	\$ 183.29	\$ 163.48	\$ 161.57	\$ 172.02		
19	Revenue Annualization / Present Rates	\$ 187	\$ -	\$ -	\$ -	\$ -	\$ 1,934	
20								
21	Increase in Number of Customers	1	-	-	-	-	-	
22	Average Revenue / Proposed Rates	\$ 221.61	\$ 217.03	\$ 193.59	\$ 191.31	\$ 203.70		
23	Revenue Annualization / Proposed Rates	\$ 187	\$ -	\$ -	\$ -	\$ -	\$ 2,291	
24	Additional Gallons to be Produced	56,250	-	-	-	-		551,322

**Chaparral City Water Company**

2 Inch Commercial

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule C-2

Page 1.9

Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06	Total Year
1	Year End Number of Customers	71	71	71	71	71	71	71	
2	Actual Customers	71	71	71	71	71	71	71	
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-	(1)
4	Average Revenue / Present Rates	\$ 223.05	\$ 218.06	\$ 217.63	\$ 236.71	\$ 251.14	\$ 294.48	\$ 267.22	
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(267)
6									
7	Increase in Number of Customers	-	-	-	-	-	-	-	(1)
8	Average Revenue / Proposed Rates	\$ 264.13	\$ 258.22	\$ 257.72	\$ 280.31	\$ 297.39	\$ 348.71	\$ 316.43	
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(316)
10	Additional Gallons to be Produced	-	-	-	-	-	-	-	(77,070)
11									
12									
13									
14									
15	Year End Number of Customers	71	71	71	71	71	71	71	
16	Actual Customers	72	72	71	71	71	71	71	
17	Increase in Number of Customers/Bills	(1)	(1)	-	-	-	-	-	(3)
18	Average Revenue / Present Rates	\$ 244.62	\$ 266.60	\$ 247.87	\$ 225.66	\$ 250.45			
19	Revenue Annualization / Present Rates	\$ (245)	\$ (267)	\$ -	\$ -	\$ -			(778)
20									
21	Increase in Number of Customers	(1)	(1)	-	-	-	-	-	
22	Average Revenue / Proposed Rates	\$ 289.67	\$ 315.70	\$ 293.52	\$ 267.21	\$ 296.57			
23	Revenue Annualization / Proposed Rates	\$ (245)	\$ (267)	\$ -	\$ -	\$ -			(922)
24	Additional Gallons to be Produced	(68,105)	(76,827)	-	-	-			(222,001)



**Chaparral City Water Company**

3 Inch Commercial

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule C-2

Page 1.10

Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06	
1	Year End Number of Customers	5	5	5	5	5	5	5	
2	Actual Customers	5	5	6	5	5	5	5	
3	Increase in Number of Customers/Bills	-	-	(1)	-	-	-	-	
4	Average Revenue / Present Rates	\$ 203.21	\$ 240.50	\$ 206.06	\$ 239.75	\$ 243.27	\$ 217.32	\$ 245.79	
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ (206)	\$ -	\$ -	\$ -	\$ -	
6									
7	Increase in Number of Customers	-	-	(1)	-	-	-	-	
8	Average Revenue / Proposed Rates	\$ 240.63	\$ 284.79	\$ 244.01	\$ 283.90	\$ 288.07	\$ 257.34	\$ 291.06	
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ (244)	\$ -	\$ -	\$ -	\$ -	
10	Additional Gallons to be Produced	-	-	(23,834)	-	-	-	-	
11									
12									
13									
14									
15	Year End Number of Customers	5	5	5	5	5	5	5	
16	Actual Customers	5	5	5	5	5	5	5	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-	-	(1)
18	Average Revenue / Present Rates	\$ 281.58	\$ 280.82	\$ 219.84	\$ 211.52	\$ 212.53			
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (206)		
20									
21	Increase in Number of Customers	-	-	-	-	-	-	-	
22	Average Revenue / Proposed Rates	\$ 333.43	\$ 332.53	\$ 260.32	\$ 250.48	\$ 251.67			
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (244)		
24	Additional Gallons to be Produced	-	-	-	-	-	(23,834)		

**Chaparral City Water Company**

34 Inch Irrigation

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit

Schedule Interim C-2

Page 1.11

Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	147	147	147	147	147	147	147
2	Actual Customers	144	144	144	144	144	145	145
3	Increase in Number of Customers/Bills	3	3	3	3	3	2	2
4	Average Revenue / Present Rates	\$ 37.16	\$ 33.93	\$ 32.14	\$ 33.03	\$ 34.04	\$ 40.61	\$ 52.33
5	Revenue Annualization / Present Rates	\$ 111	\$ 102	\$ 96	\$ 99	\$ 102	\$ 81	\$ 105
6								
7	Increase in Number of Customers	3	3	3	3	3	2	2
8	Average Revenue / Proposed Rates	\$ 44.01	\$ 40.18	\$ 38.06	\$ 39.12	\$ 40.32	\$ 48.10	\$ 61.98
9	Revenue Annualization / Proposed Rates	\$ 132	\$ 121	\$ 114	\$ 117	\$ 121	\$ 96	\$ 124
10	Additional Gallons to be Produced	45,303	39,095	35,647	37,366	39,314	34,628	49,656
11								
12								
13								
14								
15	Year End Number of Customers	147	147	147	147	147		
16	Actual Customers	146	146	147	147	147		
17	Increase in Number of Customers/Bills	1	1	-	-	-		21
18	Average Revenue / Present Rates	\$ 45.61	\$ 49.16	\$ 42.35	\$ 40.33	\$ 35.44		
19	Revenue Annualization / Present Rates	\$ 46	\$ 49	\$ -	\$ -	\$ -		\$ 792
20								
21	Increase in Number of Customers	1	1	-	-	-		
22	Average Revenue / Proposed Rates	\$ 54.02	\$ 58.22	\$ 50.15	\$ 47.77	\$ 41.97		
23	Revenue Annualization / Proposed Rates	\$ 46	\$ 49	\$ -	\$ -	\$ -		\$ 937
24	Additional Gallons to be Produced	20,521	22,795	-	-	-		324,325

**Chaparral City Water Company**

1 inch Irrigation

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit  
Schedule Interim C-2  
Page 1.12  
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	176	176	176	176	176	176	176
2	Actual Customers	166	166	169	167	167	167	167
3	Increase in Number of Customers/Bills	10	10	7	9	9	9	9
4	Average Revenue / Present Rates	\$ 81.05	\$ 88.21	\$ 65.06	\$ 66.65	\$ 69.18	\$ 88.27	\$ 110.81
5	Revenue Annualization / Present Rates	\$ 811	\$ 682	\$ 455	\$ 600	\$ 623	\$ 794	\$ 997
6								
7	Increase in Number of Customers	10	10	7	9	9	9	9
8	Average Revenue / Proposed Rates	\$ 95.98	\$ 80.78	\$ 77.04	\$ 78.92	\$ 81.93	\$ 104.53	\$ 131.22
9	Revenue Annualization / Proposed Rates	\$ 960	\$ 808	\$ 539	\$ 710	\$ 737	\$ 941	\$ 1,181
10	Additional Gallons to be Produced	374,040	291,751	190,059	253,539	268,171	378,300	508,315
11								
12								
13								
14								
15	Year End Number of Customers	176	176	176	176	176	176	176
16	Actual Customers	169	171	173	176	176	176	176
17	Increase in Number of Customers/Bills	7	5	3	-	-	-	78
18	Average Revenue / Present Rates	\$ 118.29	\$ 102.80	\$ 93.47	\$ 98.40	\$ 90.81	-	-
19	Revenue Annualization / Present Rates	\$ 828	\$ 514	\$ 280	\$ -	\$ -	-	\$ 6,585
20								
21	Increase in Number of Customers	7	5	3	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 140.08	\$ 121.74	\$ 110.68	\$ 116.53	\$ 107.53	-	-
23	Revenue Annualization / Proposed Rates	\$ 828	\$ 514	\$ 280	\$ -	\$ -	-	\$ 7,797
24	Additional Gallons to be Produced	428,949	256,742	136,094	-	-	-	3,085,959

**Chaparral City Water Company**

15 Inch Irrigation

Customers to Year End Levels

Test Year Ended December 31, 2006

Exhibit  
Schedule Interim C-2  
Page 1.13  
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06	
1	Year End Number of Customers	69	69	69	69	69	69	69	
2	Actual Customers	66	66	71	67	67	67	68	
3	Increase in Number of Customers/Bills	3	3	(2)	2	2	2	1	
4	Average Revenue / Present Rates	\$ 143.74	\$ 116.52	\$ 130.08	\$ 159.46	\$ 145.59	\$ 143.38	\$ 308.96	
5	Revenue Annualization / Present Rates	\$ 431	\$ 350	\$ (260)	\$ 319	\$ 291	\$ 287	\$ 309	
6									
7	Increase in Number of Customers	3	3	(2)	2	2	2	1	
8	Average Revenue / Proposed Rates	\$ 170.21	\$ 137.98	\$ 154.04	\$ 188.82	\$ 172.40	\$ 169.79	\$ 365.87	
9	Revenue Annualization / Proposed Rates	\$ 511	\$ 414	\$ (308)	\$ 378	\$ 345	\$ 340	\$ 366	
10	Additional Gallons to be Produced	189,115	136,774	(108,564)	146,225	128,448	125,613	168,949	
11									
12									
13									
14									
15	Year End Number of Customers	69	69	69	69	69	69	12	
16	Actual Customers	68	69	69	69	69	69		
17	Increase in Number of Customers/Bills	1	-	-	-	-	-		
18	Average Revenue / Present Rates	\$ 174.49	\$ 165.27	\$ 148.26	\$ 206.95	\$ 127.05			
19	Revenue Annualization / Present Rates	\$ 174	\$ -	\$ -	\$ -	\$ -		\$ 1,901	
20									
21	Increase in Number of Customers	1	-	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 206.63	\$ 195.71	\$ 175.57	\$ 245.07	\$ 150.45			
23	Revenue Annualization / Proposed Rates	\$ 174	\$ -	\$ -	\$ -	\$ -		\$ 2,251	
24	Additional Gallons to be Produced	82,750	-	-	-	-		869,309	

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Revenue Annualization  
4 Inch Irrigation Meters

Line No.	Month	2006 Actual Usage	2006 Amount Billed Current Rates	2006 Amount Billed Proposed Rates	2007 Usage	Projected Amount Billed Current Rates	Projected Amount Billed Proposed Rates
1	Jan.	-	\$ 227.00	\$ 268.81	-	\$ 227.00	\$ 268.81
2	Feb.	174,000	498.44	590.25	-	227.00	268.81
3	Mar.	4,052,000	6,548.12	7,754.28	-	227.00	268.81
4	Apr.	1,000	228.56	270.66	-	227.00	268.81
5	May	1,955,000	3,276.80	3,880.38	-	227.00	268.81
6	Jun.	13,658,000	21,533.48	25,499.94	-	227.00	268.81
7	Jul.	3,388,000	5,512.28	6,527.64	-	227.00	268.81
8	Aug.	1,000	228.56	270.66	-	227.00	268.81
9	Sep.	-	227.00	268.81	-	227.00	268.81
10	Oct.	-	227.00	268.81	-	227.00	268.81
11	Nov.	-	227.00	268.81	-	227.00	268.81
12	Dec.	429,000	896.24	1,061.32	-	227.00	268.81
13	Total	23,658,000	\$ 39,630.48	\$ 46,930.37	-	\$ 2,724.00	\$ 3,225.72
14		[1]	[2]	[3]	[4]	[5]	[6]
15	Annualization at present rates [5] - [2]						
16	Annualization at proposed rates [6] - [3]						
17	Additional Gallons (in 1,000's) [4] - [1] / 1000						
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Revenue Annualization  
4 Inch Irrigation Meters

[illegible]

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Revenue Annualization  
6 Inch Irrigation Meters

Line No.	Month	2006 Actual Usage	2006 Amount Billed	2006 Current Rates	2006 Amount Billed	2006 Proposed Rates	2007 Usage	Projected Amount Billed	Projected Amount Billed	Projected Proposed Rates
1	Sunridge Canyon G.C.									
2	Account: 6008478-7									
3										
4										
5										
6	Jan.	-	505,000	454.00	1,241.80	537.63	256,000	227.00	268.81	
7	Feb.	-	505,000	454.00	1,470.54	537.63	-	454.00	537.63	
8	Mar.	-	505,000	454.00	537.63	537.63	-	454.00	537.63	
9	Apr.	1,312,000	1,312,000	2,500.72	2,961.36	537.63	-	454.00	537.63	
10	May	3,612,000	3,612,000	6,088.72	7,210.27	537.63	1,000	455.56	539.48	
11	Jun.	568,000	568,000	1,340.08	1,586.93	537.63	-	454.00	537.63	
12	Jul.	1,173,000	1,173,000	2,283.88	2,704.57	537.63	-	454.00	537.63	
13	Aug.	-	-	454.00	537.63	537.63	36,714	511.27	605.45	
14	Sep.	-	-	454.00	537.63	537.63	36,714	511.27	605.45	
15	Oct.	1,503,000	1,503,000	2,798.68	3,314.20	537.63	36,714	511.27	605.45	
16	Nov.	1,249,000	1,249,000	2,402.44	2,844.97	537.63	36,714	511.27	605.45	
17	Dec.	-	-	454.00	537.63	537.63	36,714	511.27	605.45	
18										
19										
20	Total	9,922,000	9,922,000	20,926.32	24,780.99	537.63	440,571	5,508.93	6,523.71	
21		[1]		[2]	[3]		[4]	[5]	[6]	
22										
23										
24	Revenue Annualization at present rates [5] - [2]									
25	Revenue Annualization at proposed rates [6] - [3]									
26	Additional Gallons (in 1,000's) [4] - [1]/1000									
27										
28										
29										
30										

Revenue Annualization at present rates [5] - [2] \$ (15,417.39)  
Revenue Annualization at proposed rates [6] - [3] \$ (18,257.28)  
Additional Gallons (in 1,000's) [4] - [1]/1000 (9,481)

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Revenue Annualization  
6 Inch Irrigation Meters

Line No.	Month	2006		2006		2007	Projected	
		Actual Usage	Amount Billed	Current Rates	Proposed Rates	Usage	Amount Billed	Amount Billed
1	Jan.	13,051,000	\$ 20,813.56	\$ 24,647.42	-	-	\$ 454.00	\$ 537.63
2	Feb.	13,621,000	21,702.76	25,700.41	-	-	454.00	537.63
3	Mar.	10,783,000	17,275.48	20,457.63	-	-	454.00	537.63
4	Apr.	21,261,000	33,621.16	39,814.18	-	-	454.00	537.63
5	May	24,574,000	38,789.44	45,934.46	-	-	454.00	537.63
6	Jun.	31,629,000	49,795.24	58,967.53	192,000	Actual	753.52	892.32
7	Jul.	21,573,000	34,107.88	40,390.55	344,000	Actual	990.64	1,173.12
8	Aug.	9,097,000	14,645.32	17,342.99	76,571	Est.	573.45	679.08
9	Sep.	84,000	585.04	692.81	76,571	Est.	573.45	679.08
10	Oct.	1,119,000	2,199.64	2,604.82	76,571	Est.	573.45	679.08
11	Nov.	21,785,000	34,438.60	40,782.19	76,571	Est.	573.45	679.08
12	Dec.	2,645,000	4,580.20	5,423.88	76,571	Est.	573.45	679.08
13	Total	171,222,000	\$ 272,554.32	\$ 322,758.86	918,857		\$ 6,881.42	\$ 8,149.01
14		[1]	[2]	[3]	[4]		[5]	[6]
23	Revenue Annualization at present rates [5] - [2]			\$ (265,672.90)				
24	Revenue Annualization at proposed rates [6] - [3]			\$ (314,609.85)				
25	Additional Gallons (in 1,000's) [4] - [1]/1000			(170,303)				



Chaparral City Water Company  
Test Year Ended December 31, 2006  
Adjustment to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Schedule Interim C-2  
Page 2  
Witness: Bourassa

Line

No.

1 Revenue Annualization

2

3

4 Revenue Annualization

\$ (309,479)

5

6

7

8 Total Revenue from Annualization

\$ (309,479)

9

10

11 Adjustment to Revenue and/or Expense

\$ (309,479)

12

13 SUPPORTING SCHEDULES

14 Interim C-2 pages 1.1 to 1.15

15 Interim H-1

16

17

18

19

20

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Adjustment to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Schedule Interim C-2  
Page 3  
Witness: Bourassa

Line  
No.

1 Remove Other Income and Expenses to Eliminate Effects on Income Taxes

2

3

4 Test Year Interest Income

\$ (64,397)

Adjustment Label

2a

5 Test Year Other Income

91,835

2b

6 Test Year Other Expense

400

2c

7

8 Total

\$ 27,838

9

10

11 Adjustment to Revenue and/or Expense

\$ 27,838

12

13

14

15

16

17

18

19

20

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Schedule Interim C-2  
Page 4  
Witness: Bourassa

Line

No.

1 Annualize power cost for additional gallons from annualization of revenues

2

3 Test Year Power Costs

\$ 618,039

4 Gallons sold in Test Year (1,000's)

2,084,339

5 Cost per 1,000 gallons

0.29652

6 Additional gallons from annualization (in 1,000's) in adjustment 6

(229,792)

7

8 Additional Expense

\$ (68,137)

9

10

11 Adjustment to Revenue and/or Expense

\$ (68,137)

12

13

14

15

16

17

18

19

20

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Schedule Interim C-2  
Page 5  
Witness: Bourassa

Line  
No.

1	<u>Amortization of Gain on Well</u>	
2		
3	Gain on Well <sup>1</sup>	\$ 1,520,000
4	Shared Gain on Well (50%)	\$ 760,000
5	Amortization Period (years)	10
6	Annual Amortization	\$ 76,000
7		
8	Adjustment to Revenues and/or Expense	<u>\$ (76,000)</u>
9		
10		
11		
12		
13		

14 <sup>1</sup> Settlement with Fountain Hills Sanitary District from removal of wells from service. February 2005.

15  
16  
17  
18  
19  
20

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Schedule Interim C-2  
Page 6  
Witness: Bourassa

Line

No.

1	<u>Interest Synchronization</u>	
2		
3	Rate Base	\$ 21,599,023
4	Weighted cost of debt (from D-1) (short and long-term)	1.26%
5	Interest Expense	\$ 272,619
6	Test Year Interest Expense	<u>\$ 543,433</u>
7		
8	Increase (decrease) in Interest Expense	<u>\$ (270,814)</u>
9		
10	Adjustment to Revenues and/or Expense	<u>\$ 270,814</u>
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Computation of Gross Revenue Conversion Factor

Exhibit  
Schedule Interim C-3  
Page 1  
Witness: Bourassa

Line		Percentage of Incremental Gross Revenues
<u>No.</u>	<u>Description</u>	
1	Federal Income Taxes	31.63%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	38.60%
9		
10	Operating Income % = 100% - Tax Percentage	61.40%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.6286
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Summary of Cost of Capital

Exhibit  
Schedule Interim D-1  
Page 1  
Witness: Bourassa

Line No.	Item of Capital	End of Test Year				End of Projected Year			
		Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Short-Term Debt	\$ 1,400,000	3.92%	6.11%	0.24%	\$ 1,400,000	3.95%	6.11%	0.24%
3	Long-Term Debt	6,865,000	19.20%	5.33%	1.02%	\$ 6,585,000	18.58%	5.34%	0.99%
5	Stockholder's Equity <sup>1,2</sup>	27,491,716	76.89%	9.30% <sup>3</sup>	7.15%	28,860,623	81.42%	9.30%	7.57%
7	Totals	\$ 35,756,716	100.00%		8.41% <sup>4</sup>	\$ 35,445,623	100.00%		8.56%

<sup>1</sup> Increased for unrecorded amortization of plant \$ 32,536 . See B-2 page X.

<sup>2</sup> Increased for CAP Acquisition \$ 1,280,000 . See B-2 page X.

<sup>3</sup> Return on common equity authorized in Decision 68176.

<sup>4</sup> Weighted cost of capital (WACC) used for purposes of determining the indicated revenue requirement is 7.6% - the WACC approved in Decision 68176.

**SUPPORTING SCHEDULES:**

Interim D-1  
Interim D-3  
Interim D-4  
Interim E-1

**RECAP SCHEDULES:**  
Interim A-3

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Comparative Balance Sheets

Exhibit  
Schedule Interim E-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2006	Year Ended 12/31/2005	Year Ended 12/31/2004
1	<b>ASSETS</b>			
2	Plant In Service	\$ 51,020,714	\$ 48,932,146	\$ 43,231,754
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	2,241,397	1,923,770	3,779,359
5	Less: Accumulated Depreciation	(14,947,296)	(13,137,449)	(12,013,815)
6	Net Plant	<u>\$ 38,314,815</u>	<u>\$ 37,718,467</u>	<u>\$ 34,997,298</u>
7				
8	Goodwill, Net	\$ 11,613,874	\$ 11,840,743	\$ 11,924,367
9	Debt Reserve Funds	728,061	723,120	719,778
10		<u>\$ 12,341,935</u>	<u>\$ 12,563,863</u>	<u>\$ 12,644,145</u>
11	<b>CURRENT ASSETS</b>			
12	Cash and Equivalents	\$ 391,430	\$ 576,802	\$ 292,384
13	Restricted Cash	13,261	8,780	3,132
14	Accounts Receivable, Net	350,897	422,007	152,074
15	Unbilled Revenues	324,967	338,910	276,565
16	Materials and Supplies	14,521	17,029	22,551
17	Prepayments	192,485	172,648	192,160
18	Inter-company taxes receivable from Parent	1,056,938	879,735	565,546
19	Deferred Income Taxes, Current	35,751	-	25,334
20	Other Current Assets	71,000	71,000	-
21	Total Current Assets	<u>\$ 2,451,250</u>	<u>\$ 2,486,911</u>	<u>\$ 1,529,746</u>
22				
23	Debt Issuance Costs	\$ 424,010	\$ 450,511	\$ 477,012
24	Regulatory Assets	\$ -	\$ 239,538	\$ 185,246
25	Other	-	3,991	327
26	Total Other Assets	<u>\$ 424,010</u>	<u>\$ 694,040</u>	<u>\$ 662,585</u>
27				
28	Other Investments & Special Funds	\$ -	\$ -	\$ -
29				
30	<b>TOTAL ASSETS</b>	<u><u>\$ 53,532,010</u></u>	<u><u>\$ 53,463,281</u></u>	<u><u>\$ 49,833,774</u></u>
31				
32	<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
33	Common Equity	\$ 26,179,180	\$ 25,669,835	\$ 24,689,128
34				
35	Long-Term Debt, less current	\$ 6,585,000	\$ 6,865,000	\$ 7,205,309
36	<b>CURRENT LIABILITIES</b>			
37	Accounts Payable	\$ 308,239	\$ 782,651	\$ 538,148
38	Current Portion of Long-Term Debt	280,000	340,309	598,000
39	Payables to Associated Companies	1,400,000	2,159,236	835,576
40	Customer Meter Deposits, Current	-	-	-
41	Accrued Taxes	121,041	-	35,891
42	Accrued Employee expenses	85,679	79,780	87,182
43	Accrued Interest	34,790	62,142	51,012
44	Other Current Liabilities	254,017	306,521	228,732
45	Total Current Liabilities	<u>\$ 2,483,766</u>	<u>\$ 3,730,639</u>	<u>\$ 2,374,541</u>
46	<b>DEFERRED CREDITS</b>			
47	Customer Meter Deposits, less current	\$ 819,845	\$ 927,022	\$ 987,369
48	Advances in Aid of Construction	6,557,243	10,377,960	10,704,058
49	Accumulated Deferred Income Taxes	4,070,137	4,165,898	3,305,583
50	Contributions In Aid of Construction, Net	6,188,963	921,045	525,440
51	Regulatory Liabilities	587,825	-	-
52	Other	60,051	-	-
53	Asset Retirement Obligations	-	805,882	42,346
54	Total Deferred Credits	<u>\$ 18,284,064</u>	<u>\$ 17,197,807</u>	<u>\$ 15,564,796</u>
55				
56	Total Liabilities & Common Equity	<u><u>\$ 53,532,010</u></u>	<u><u>\$ 53,463,281</u></u>	<u><u>\$ 49,833,774</u></u>
57				
58	<b>SUPPORTING SCHEDULES:</b>			
59				



**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Comparative Income Statements

Exhibit  
Schedule Interim E-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2006	Prior Year Ended 12/31/2005	Prior Year Ended 12/31/2004
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 7,673,618	\$ 6,436,004	\$ 6,030,963
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	82,289	583,047	513,256
5	<b>Total Revenues</b>	<b>\$ 7,755,907</b>	<b>\$ 7,019,051</b>	<b>\$ 6,544,219</b>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 924,576	\$ 917,307	\$ 921,557
8	Purchased Water	934,095	816,592	710,222
9	Purchased Power	618,039	510,091	465,148
10	Chemicals	127,457	105,814	66,210
11	Repairs and Maintenance	104,609	72,640	96,152
12	Office Supplies and Expense	19,800	21,018	28,586
13	Outside Services	266,544	207,484	535,520
14	Water Testing	43,458	27,429	48,991
15	Rents	-	-	79
16	Transportation Expenses	70,430	57,633	76,730
17	Insurance - General Liability	(1,294)	1,860	775
18	Insurance - Health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	168,158	339,117	35,304
20	Miscellaneous Expense	1,243,108	1,160,406	989,392
21	Depreciation Expense	1,632,458	1,131,345	921,794
22	Taxes Other Than Income	44,200	42,436	43,406
23	Property Taxes	242,105	279,529	280,537
24	Income Tax	241,774	657,847	343,790
25				
26	<b>Total Operating Expenses</b>	<b>\$ 6,679,517</b>	<b>\$ 6,348,548</b>	<b>\$ 5,564,193</b>
27	<b>Operating Income</b>	<b>\$ 1,076,390</b>	<b>\$ 670,503</b>	<b>\$ 980,026</b>
28	<b>Other Income (Expense)</b>			
29	Interest Income	64,397	29,010	4,136
30	Other income (loss)	(91,835)	760,000	-
31	Interest Expense	(543,433)	(478,806)	(472,619)
32	Other Expense	(400)	-	-
33				
34	<b>Total Other Income (Expense)</b>	<b>\$ (571,271)</b>	<b>\$ 310,204</b>	<b>\$ (468,483)</b>
35	<b>Net Profit (Loss)</b>	<b>\$ 505,119</b>	<b>\$ 980,707</b>	<b>\$ 511,543</b>

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SUPPORTING SCHEDULES:

RECAP SCHEDULES:

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Comparative Statements of Cash Flows

Exhibit  
Schedule Interim E-3  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2006	Prior Year Ended 12/31/2005	Prior Year Ended 12/31/2004
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	\$ 505,119	\$ 980,707	\$ 511,543
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	1,632,458	1,131,345	921,794
8	Provision for Doubtful Accounts	11,835	12,705	-
9	Deferred Income Taxes	(131,512)	885,649	649,767
10	Tax Benefit on Goodwill	226,869	83,624	-
11	Amortization of Debt Issuance Costs	26,501	26,501	26,675
12	Other	93,671	-	11,816
13	Changes in Certain Assets and Liabilities:			
14	Accounts Receivable	59,275	(282,638)	118,515
15	Unbilled Revenues	13,943	(62,345)	(46,229)
16	Materials and Supplies Inventory	2,508	5,522	1,496
17	Prepaid Expenses	(19,837)	19,512	(44,468)
18	Deferred Charges/Regulatory Liabilities	21,481	805,882	-
19	Accounts Payable	(42,939)	244,503	131,877
20	Intercompany payable	34,934	(176,340)	114,933
21	Customer Deposits	(107,177)	(60,347)	(82,962)
22	Intercompany taxes receivable and taxes payable	(146,153)	(350,080)	709,840
23	Other assets and liabilities	253,543	(57,525)	(88,807)
24	Net Cash Flow provided by Operating Activities	\$ 2,434,519	\$ 3,206,675	\$ 2,935,790
25	Cash Flow From Investing Activities:			
26	Capital Expenditures	(2,283,627)	(3,893,252)	(4,069,806)
27	Plant Held for Future Use	-	-	-
28	Changes in debt reserve fund	(4,941)	(3,342)	272
29	Net Cash Flows from Investing Activities	\$ (2,288,568)	\$ (3,896,594)	\$ (4,069,534)
30	Cash Flow From Financing Activities			
31	Change in Restricted Cash	(4,481)	(5,648)	(739)
32	Change in net amounts due to parent and affiliates	(600,000)	1,500,000	500,000
33	Receipt of advances for and contributions in aid of construction	1,099,205	423,676	643,451
34	Refunds for advances for construction	(488,128)	(345,691)	(373,005)
35	Repayments of Long-Term Debt	(340,309)	(598,000)	(560,000)
36	Dividends Paid	-	-	-
37	Tax Benefits from exercise of stock based awards	2,390	-	-
38	Paid in Capital	-	-	-
39	Net Cash Flows Provided by Financing Activities	\$ (331,323)	\$ 974,337	\$ 209,707
40	Increase(decrease) in Cash and Cash Equivalents	(185,372)	284,418	(924,037)
41	Cash and Cash Equivalents at Beginning of Year	576,802	292,384	1,216,421
42	Cash and Cash Equivalents at End of Year	\$ 391,430	\$ 576,802	\$ 292,384

43  
44 SUPPORTING SCHEDULES:  
45

RECAP SCHEDULES:

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Statement of Changes in Stockholder's Equity

Exhibit  
Schedule Interim E-4  
Page 1  
Witness: Bourassa

Line

No.

	Common	Additional	Retained	
	<u>Stock</u>	<u>Paid-In-Capital</u>	<u>Earnings</u>	<u>Total</u>
1				
2				
3				
4	Balance, December 31, 2003	\$ 4,603,140	\$ 14,925,242	\$ 4,649,203 \$ 24,177,585
5	Addnl Paid In Capital Adjustment			-
6	Dividends			-
7	Net Income		511,543	511,543
8	Balance, December 31, 2004	\$ 4,603,140	\$ 14,925,242	\$ 5,160,746 \$ 24,689,128
9	Addnl Paid In Capital			-
10	Dividends			-
11	Net Income		980,707	980,707
12	Balance, December 31, 2005	\$ 4,603,140	\$ 14,925,242	\$ 6,141,453 \$ 25,669,835
13	Addnl Paid In Capital			-
14	Dividends			-
15	Net Income		4,226	505,119 509,345
16	Balance, December 3, 2006	\$ 4,603,140	\$ 14,929,468	\$ 6,646,572 \$ 26,179,180

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23 SUPPORTING SCHEDULES:

RECAP SCHEDULES:

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Projected Income Statements - Present & Proposed Rates

Exhibit  
Schedule Interim F-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2007	At Proposed Rates Year Ended 12/31/2007
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 7,673,618	\$ 7,364,139	\$ 8,713,385
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	82,289	82,289	82,289
5		<u>\$ 7,755,907</u>	<u>\$ 7,446,428</u>	<u>\$ 8,795,674</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 924,576	\$ 924,576	\$ 924,576
8	Purchased Water	934,095	934,095	934,095
9	Purchased Power	618,039	549,902	549,902
10	Chemicals	127,457	127,457	127,457
11	Repairs and Maintenance	104,609	104,609	104,609
12	Office Supplies and Expense	19,800	19,800	19,800
13	Outside Services	266,544	266,544	266,544
14	Water Testing	43,458	43,458	43,458
15	Rents	-	-	-
16	Transportation Expenses	70,430	70,430	70,430
17	Insurance - General Liability	(1,294)	(1,294)	(1,294)
18	Insurance - health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	168,158	168,158	168,158
20	Miscellaneous Expense	1,243,108	1,243,108	1,243,108
21	Depreciation Expense	1,632,458	1,632,458	1,632,458
22	Taxes Other Than Income	44,200	44,200	44,200
23	Property Taxes	242,105	242,105	242,105
24	Income Tax	241,774	339,748	860,542
25				
26	<b>Total Operating Expenses</b>	<u>\$ 6,679,517</u>	<u>\$ 6,709,354</u>	<u>\$ 7,230,148</u>
27	<b>Operating Income</b>	<u>\$ 1,076,390</u>	<u>\$ 737,074</u>	<u>\$ 1,565,526</u>
28	<b>Other Income (Expense)</b>			
29	Interest Income	64,397	-	-
30	Other income	(91,835)	-	-
31	Interest Expense	(543,433)	(272,619)	(272,619)
32	Other Expense	(400)	-	-
33	Gain/Loss Sale of Fixed Assets	-	-	-
34	<b>Total Other Income (Expense)</b>	<u>\$ (571,271)</u>	<u>\$ (272,619)</u>	<u>\$ (272,619)</u>
35	<b>Net Profit (Loss)</b>	<u>\$ 505,119</u>	<u>\$ 464,454</u>	<u>\$ 1,292,907</u>
36				

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Projected Statements of Changes in Financial Position  
Present and Proposed Rates

Exhibit  
Schedule Interim F-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2006	At Present Rates Year Ended 12/31/2007	At Proposed Rates Year Ended 12/31/2007
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	\$ 505,119	\$ 540,454	\$ 1,368,907
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	1,632,458	1,632,458	1,632,458
10	Provision for Doubtful Accounts	11,835		
11	Deferred Income Taxes	(131,512)		
12	Tax Benefit on Goodwill	226,869		
13	Amortization of Debt Issuance Costs	26,501		
14	Other	93,671		
15	Changes in Certain Assets and Liabilities:			
16	Accounts Receivable	59,275		
17	Unbilled Revenues	13,943		
18	Materials and Supplies Inventory	2,508		
19	Prepaid Expenses	(19,837)		
20	Deferred Charges/Regulatory Liabilities	21,481		
21	Accounts Payable	(42,939)		
22	Intercompany payable	34,934		
23	Customer Deposits	(107,177)		
24	Intercompany taxes receivable and taxes payable	(146,153)		
25	Other assets and liabilities	253,543		
26	Net Cash Flow provided by Operating Activities	<u>\$ 2,434,519</u>	<u>\$ 2,172,912</u>	<u>\$ 3,001,365</u>
27	Cash Flow From Investing Activities:			
28	Capital Expenditures	(2,283,627)	(8,044,478)	(1,655,500)
29	Plant Held for Future Use	-		
30	Changes in debt reserve fund	(4,941)		
31	Net Cash Flows from Investing Activities	<u>\$ (2,288,568)</u>	<u>\$ (8,044,478)</u>	<u>\$ (1,655,500)</u>
32	Cash Flow From Financing Activities			
33	Change in Restricted Cash	(4,481)		
34	Change in net amounts due to parent and affiliates	(600,000)		
35	Receipt of advances for and contributions in aid of construction	1,099,205		
36	Refunds for advances for construction	(488,128)	(488,128)	(488,128)
37	Repayments of Long-Term Debt	(340,309)	(280,000)	(280,000)
38	Dividends Paid	-		
39	Tax Benefits from exercise of stock based awards	2,390		
40	Paid in Capital	-		
41	Net Cash Flows Provided by Financing Activities	<u>\$ (331,323)</u>	<u>\$ (768,128)</u>	<u>\$ (768,128)</u>
42	Increase(decrease) in Cash and Cash Equivalents	(185,372)	(6,639,694)	577,737
43	Cash and Cash Equivalents at Beginning of Year	576,802	391,430	391,430
44	Cash and Cash Equivalents at End of Year	<u>\$ 391,430</u>	<u>\$ (6,248,264)</u>	<u>\$ 969,167</u>
45				

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Projected Construction Requirements

Exhibit  
Schedule Iterim F-3  
Page 1  
Witness: Bourassa

Line					
No.					
1					
2	Account				
3	<u>Number</u>	<u>Plant Asset:</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
4	301	Organization Cost	\$ -		\$ -
5	302	Franchise Cost			
6	303	Land and Land Rights			
7	304	Structures and Improvements			
8	306	Lake, River and Other Intakes			
9	307	Wells and Springs			
10	310	Power Generation Equipment			
11	311	Electric Pumping Equipment	10,000	10,000	10,000
12	320	Water Treatment Equipment	11,000	11,000	11,000
13	330	Distribution Reservoirs & Standpipe	1,275,000	3,086,000	1,295,000
14	331	Transmission and Distribution Mains	20,000	10,000	10,000
15	333	Services	225,000	225,000	225,000
16	334	Meters	55,000	55,000	55,000
17	335	Hydrants			
18	339	Other Plant Structures and Improvements			
19	340	Office Furniture and Fixtures	27,500	27,500	27,500
20	341	Transportation Equipment	26,000	70,000	105,000
21	343	Tools and Work Equipment			
22	344	Power Operated Equipment			
23	345	Communications Equipment			
24	346	Miscellaneous Equipment	6,000	6,000	6,000
25	348	Other Tangible Plant			
26					
27	Total		<u>\$ 1,655,500</u>	<u>\$ 3,500,500</u>	<u>\$ 1,744,500</u>
28					
29					
30					

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Revenue Summary  
With Annualized Revenues to Year End Number of Customers

Exhibit  
Schedule Interim H-1  
Page 1  
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	\$ 3,455,850	\$ 4,092,703	\$ 636,853	18.43%	45.08%	45.09%
2	1 Inch	Residential	2,342,394	2,773,714	431,319	18.41%	30.56%	30.56%
3	1.5 Inch	Residential	31,414	37,199	5,784	18.41%	0.41%	0.41%
4	2 Inch	Residential	123,686	146,464	22,779	18.42%	1.61%	1.61%
5	3 Inch	Residential	10,012	11,856	1,844	18.42%	0.13%	0.13%
6								
7		Subtotal	5,963,356	7,061,935	1,098,579	18.42%	77.79%	77.80%
8								
9	3/4 Inch	Commercial	\$ 67,867	\$ 80,372	12,505	18.43%	0.89%	0.89%
10	1 Inch	Commercial	98,616	116,775	18,159	18.41%	1.29%	1.29%
11	1.5 Inch	Commercial	140,840	166,775	25,935	18.41%	1.84%	1.84%
12	2 Inch	Commercial	222,208	263,132	40,924	18.42%	2.90%	2.90%
13	3 Inch	Commercial	14,217	16,835	2,618	18.42%	0.19%	0.19%
14	4 Inch	Commercial	34,290	40,604	6,314	18.42%	0.45%	0.45%
15								
16		Subtotal	\$ 578,038	\$ 684,494	\$ 106,456	18.42%	7.54%	7.54%
17								
18	3/4 Inch	Industrial	\$ 359	\$ 425	\$ 66	18.43%	0.00%	0.00%
19	1 Inch	Industrial	272	323	50	18.41%	0.00%	0.00%
20	1.5 Inch	Industrial	328	388	60		0.00%	0.00%
21								
22		Subtotal	\$ 959	\$ 1,135	177	18.42%	0.01%	0.01%
23								
24	3/4 Inch	Irrigation	\$ 69,200	\$ 81,955	12,755	18.43%	0.90%	0.90%
25	1 Inch	Irrigation	178,745	211,667	32,922	18.42%	2.33%	2.33%
26	1.5 Inch	Irrigation	134,012	158,695	24,683		1.75%	1.75%
27	2 Inch	Irrigation	161,987	191,827	29,840	18.42%	2.11%	2.11%
28	4 Inch	Irrigation	152,769	180,909	28,140	18.42%	1.99%	1.99%
29	6 Inch	Irrigation	322,475	381,874	59,400	18.42%	4.21%	4.21%
30								
31		Subtotal	1,019,188	1,206,928	187,740	18.42%	13.30%	13.30%
32								
33	3/4 Inch	Construction	\$ 181	\$ 215	33	18.45%	0.00%	0.00%
34	1 Inch	Construction	1,357	1,607	250	18.42%	0.02%	0.02%
35	2 Inch	Construction	646	765	119	18.42%	0.01%	0.01%
36	3 Inch	Construction	18,826	22,294				
37	4 Inch	Construction	2,247	2,660	\$ 414	18.42%	0.03%	0.03%
38								
39		Subtotal	\$ 23,256	\$ 27,540	\$ 4,284	18.42%	0.30%	0.30%
40								
41	3 Inch	Fire Hydrant Meter (Irrigation)	\$ 65,878	\$ 78,010	12,132	18.42%	0.86%	0.86%
42	4 Inch	Fire Hydrant Meter (Irrigation)	9,178	10,868	1,690	18.41%	0.12%	0.12%
43								
44		Subtotal	\$ 75,055	\$ 88,877	13,822	18.42%	0.98%	0.98%
45								
46	3/4 Inch	Fire Sprinkler	\$ 5,164	\$ 5,164	1	0.01%	0.07%	0.06%
47	1 Inch	Fire Sprinkler	244	244	1	0.29%	0.00%	0.00%
48	1.5 Inch	Fire Sprinkler	363	363	0	0.13%	0.00%	0.00%
49								
50		Subtotal	\$ 5,770	\$ 5,772	2	0.03%	0.08%	0.06%
51								
51	Total Revenues Before Annualization		\$ 7,665,623	\$ 9,076,682	\$ 1,411,060	18.41%	100.00%	100.00%
52								

Exhibit  
Schedule Interim H-1  
Page 2  
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills to be Issued	Additional Gallons to be Pumped (In 1,000's)	Schedule Number
<b>Revenue Annualization</b>									
1	3/4 Inch	Residential	\$ 2,317	\$ 2,744	427	18.43%	61	639	C-2, P1.1
2	1 Inch	Residential	65,260	77,276	12,017	18.41%	1,415	13,151	C-2, P1.2
3	1.5 Inch	Residential	860	1,018	158	18.41%	7	215	C-2, P1.3
4	2 Inch	Residential	253	300	47	18.42%	1	72	C-2, P1.4
5	3 Inch	Residential	1,790	2,120	330	18.41%	5	421	C-2, P1.5
6		Subtotal	\$ 70,480	\$ 83,459	12,978	18.41%	1,489	14,497	
7	3/4 Inch	Commercial	\$ (50)	\$ (59)	(9)	0.00%	(1)	(14)	C-2, P1.6
8	1 Inch	Commercial	2,647	3,134	487	18.41%	38	704	C-2, P1.7
9	1.5 Inch	Commercial	1,934	2,291	356	18.41%	12	551	C-2, P1.8
10	2 Inch	Commercial	(778)	(922)	(143)	0.00%	(3)	(222)	C-2, P1.9
11	3 Inch	Commercial	(206)	(244)	(38)	0.00%	(1)	(24)	C-2, P1.10
12	4 Inch	Commercial	-	-	-	0.00%	-	-	
13		Subtotal	\$ 3,547	\$ 4,199	26,609	750.30%	45	996	
14	3/4 Inch	Industrial	\$ -	\$ -	-	0.00%	-	-	
15	1 Inch	Industrial	-	-	-	0.00%	-	-	
16	1.5 Inch	Industrial	-	-	-	0.00%	-	-	
17		Subtotal	\$ -	\$ -	-	0.00%	-	-	
18	3/4 Inch	Irrigation	\$ 792	\$ 937	146	18.43%	21	324	C-2, P1.11
19	1 Inch	Irrigation	6,585	7,797	1,213	18.42%	78	3,086	C-2, P1.12
20	1.5 Inch	Irrigation	1,901	2,251	350	18.42%	12	869	C-2, P1.13
21	2 Inch	Irrigation	-	-	-	0.00%	-	-	
22	4 Inch	Irrigation	(108,857)	(128,908)	(20,051)	0.00%	(2)	(69,780)	C-2, P1.14a&
23	6 Inch	Irrigation	(281,090)	(332,867)	(51,777)	0.00%	-	(179,785)	C-2, P1.15a&
24		Subtotal	\$ (380,670)	\$ (450,789)	(70,119)	18.42%	109	(245,285)	
25	3/4 Inch	Construction	\$ -	\$ -	-	0.00%	-	-	
26	1 Inch	Construction	-	-	-	0.00%	-	-	
27	2 Inch	Construction	-	-	-	0.00%	-	-	
28	3 Inch	Construction	-	-	-	0.00%	-	-	
29	4 Inch	Construction	-	-	-	0.00%	-	-	
30		Subtotal	\$ -	\$ -	-	0.00%	-	-	
31	3 Inch	Fire Hydrant Meter (Irrigation)	\$ -	\$ -	-	0.00%	-	-	
32	4 Inch	Fire Hydrant Meter (Irrigation)	-	-	-	0.00%	-	-	
33		Subtotal	\$ -	\$ -	-	0.00%	-	-	
34	34 inch	Fire Sprinkler	\$ -	\$ -	-	0.00%	-	-	
35	1 Inch	Fire Sprinkler	-	-	-	0.00%	-	-	
36	1.5 Inch	Fire Sprinkler	-	-	-	0.00%	-	-	
37		Subtotal	\$ -	\$ -	-	0.00%	-	-	
38	Total Revenue Annualization		\$ (306,643)	\$ (363,131)	\$ (30,532)	0.00%	1,643	(229,792)	



**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Revenue Summary  
With Annualized Revenues to Year End Number of Customers

Exhibit  
Schedule Interim H-1  
Page 3  
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	\$ 7,665,623	\$ 9,076,682	\$ 1,411,060	18.41%	100.00%	100.00%
4	Subtotal Revenue Annualization	(306,643)	(363,131)	(56,488.30)	18.42%	-4.00%	-4.00%
5	Total Metered Revenues	\$ 7,358,980	\$ 8,713,551	\$ 1,354,571	18.41%		
6							
7	Misc. Revenues	\$ 82,289	\$ 82,289	-	0.00%	1.07%	0.91%
8	Reconciling Amount to Adjusted Revenues	5,431	(166)	(5,597)	-103.06%	0.07%	0.00%
9	Total Water Revenues	\$ 7,446,700	\$ 8,795,674	\$ 1,348,974	18.12%	0.00%	0.00%
10							
11							

Exhibit  
Schedule Interim H-2  
Page 1  
Witness: Bourassa

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Average Bill Summary at Present and Proposed Rates by Detailed Class

Exhibit  
Schedule Interim H-2  
Page 2  
Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers		Average Bill		Proposed Increase	
		at 12/31/2006	Average Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	3/4 Inch Residential	8,368	8,450	\$ 32.38	\$ 38.34	5.97	18.43%
2	1 Inch Residential	4,000	10,095	48.14	57.00	8.86	18.41%
3	1.5 Inch Residential	21	29,821	120.55	142.75	22.20	18.41%
4	2 Inch Residential	39	72,924	256.77	304.06	47.29	18.42%
5	3 Inch Residential	3	70,226	322.97	382.44	59.47	18.42%
6	Subtotal	12,431					
7							
8	3/4 Inch Commercial	115	12,528	\$ 46.97	\$ 55.63	8.65	18.43%
9	1 Inch Commercial	114	17,907	67.83	80.31	12.49	18.41%
10	1.5 Inch Commercial	66	47,736	165.69	196.20	30.51	18.41%
11	2 Inch Commercial	71	68,389	245.34	290.52	45.18	18.42%
12	3 Inch Commercial	5	34,550	233.06	275.99	42.92	18.42%
13	4 Inch Commercial	4	186,146	696.09	824.27	128.18	18.41%
14	Subtotal	375					
15							
16	3/4 Inch Industrial	1	5,375	\$ 29.89	\$ 35.40	5.51	18.43%
17	1 Inch Industrial	1	-	\$ 22.70	\$ 26.88	4.18	18.41%
18	1.5 Inch Industrial	0	8,000	\$ 65.56	\$ 77.63	12.07	18.41%
19	Subtotal	2					
20							
21	3/4 Inch Irrigation	145	16,732	\$ 39.70	\$ 47.02	7.32	18.43%
22	1 Inch Irrigation	170	41,781	\$ 87.88	\$ 104.06	16.19	18.42%
23	1.5 Inch Irrigation	68	76,173	\$ 164.23	\$ 194.48	30.25	18.42%
24	2 Inch Irrigation	52	119,346	\$ 259.18	\$ 306.92	47.74	18.42%
25	4 Inch Irrigation	4	1,813,070	\$ 3,055.39	\$ 3,618.19	562.80	18.42%
26	6 Inch Irrigation	3	5,451,042	\$ 8,957.63	\$ 10,607.62	1,650.00	18.42%
27	Subtotal	442					
28							
29	3/4 Inch Construction	1	959	\$ 15.10	\$ 17.88	2.79	18.45%
30	1 Inch Construction	3	11,803	\$ 41.11	\$ 48.69	7.57	18.42%
31	2 Inch Construction	0	36,000	\$ 129.16	\$ 152.96	23.79	18.42%
32	3 Inch Construction	4	180,682	\$ 427.86	\$ 506.67	78.81	18.42%
33	4 Inch Construction	1	94,500	\$ 374.42	\$ 443.39	68.96	18.42%
34	Subtotal	8					
35							
36	3 Inch Fire Hydrant Meter (Irrigation)	26	26,121	\$ 211.82	\$ 250.83	39.01	18.42%
37	4 Inch Fire Hydrant Meter (Irrigation)	1	516,917	\$ 1,529.63	\$ 1,811.29	281.66	18.41%
38	Subtotal	26					
39							
40	34 inch Fire Sprinkler	43	3	\$ 10.01	\$ 10.01	0.00	0.01%
41	1 Inch Fire Sprinkler	2	63	\$ 10.16	\$ 10.19	0.03	0.29%
42	1.5 Inch Fire Sprinkler	3	28	\$ 10.07	\$ 10.08	0.01	0.13%
43	Subtotal	48					
44							
45							
46	Total	13,333					

47 (a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Present and Proposed Rates

Exhibit  
Schedule Interim H-3  
Page 1  
Witness: Bourassa

Line No.	Monthly Usage Charge for: Meter Size (All Zones and Classes):	Present Rates	Proposed Rates	Change		Percent Change
1	3/4 Inch	\$ 13.60	\$ 16.11	\$ 2.51		18.46%
2	1 Inch	22.70	26.88	4.18		18.41%
3	1 1/2 Inch	45.40	53.76	8.36		18.41%
4	2 Inch	73.00	86.45	13.45		18.42%
5	3 Inch	146.00	172.89	26.89		18.42%
6	4 Inch	227.00	268.81	41.81		18.42%
7	6 Inch	454.00	537.63	83.63		18.42%
8	8 Inch	730.00	864.47	134.47		18.42%
9	10 Inch	1,043.00	1,235.12	192.12		18.42%
10	12 Inch	1,980.00	2,344.72	364.72		18.42%
11						
12						
13						
14	Fire Hydrants Basic Service	\$ -	-	-		0.00%
15						
16	Fire Hydrants Used for Irrigation	\$ 146.00	\$ 172.89	26.89		18.42%
17						
18	Monthly Service Charge for Fire Sprinkler					
19	4 Inch or smaller	\$ 10.00	10.00	-		0.00%
20	6 Inch	10.00	10.00	-		0.00%
21	8 Inch	10.00	10.00	-		0.00%
22	10 Inch	10.00	10.00	-		0.00%
23	Larger than 10 Inch	10.00	10.00	-		0.00%
24						
25						
26	Gallons In Minimum (All Zones and Classes):					
27						
28						
29	Commodity Rates					
30	(Residential, Commercial, Industrial)					
31						
32	3/4 Inch Meter Residential					
33						
34						

Block	(Per 1,000 gallons)		Percent Change
	Present Rate	Proposed Rate	
0 gallons to 3,000 gallons	\$ 1.68	\$ 1.989	0.31
3,001 gallons to 9,000 gallons	\$ 2.52	\$ 2.984	0.46
over 9,000 gallons	\$ 3.03	\$ 3.588	0.56

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Present and Proposed Rates

Exhibit  
Schedule Interim H-3  
Page 2  
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)			Percent Change
			Present Rate	Proposed Rate	Change	
1						
2						
3						
4						
5	3/4 Inch Meter Commercial and Industrial	0 gallons to 9000 gallons	\$	2.984	\$	18.41%
6		over 9,000 gallons	\$	3.588	\$	18.42%
7	1 Inch Meter	0 gallons to 24,000 gallons	\$	2.984	\$	18.41%
8		over 24,000 gallons	\$	3.588	\$	18.42%
9	1.5 Inch Meter	0 gallons to 60,000 gallons	\$	2.984	\$	18.41%
10		over 60,000 gallons	\$	3.588	\$	18.42%
11	2 Inch Meter	0 gallons to 100,000 gallons	\$	2.984	\$	18.41%
12		over 100,000 gallons	\$	3.588	\$	18.42%
13	3 Inch Meter	0 gallons to 225,000 gallons	\$	2.984	\$	18.41%
14		over 225,000 gallons	\$	3.588	\$	18.42%
15	4 Inch Meter	0 gallons to 350,000 gallons	\$	2.984	\$	18.41%
16		over 350,000 gallons	\$	3.588	\$	18.42%
17	6 Inch Meter	0 gallons to 725,000 gallons	\$	2.984	\$	18.41%
18		over 725,000 gallons	\$	3.588	\$	18.42%
19	8 Inch Meter	0 gallons to 1,125,000 gallons	\$	2.984	\$	18.41%
20		over 1,125,000 gallons	\$	3.588	\$	18.42%
21	10 Inch Meter	0 gallons to 1,500,000 gallons	\$	2.984	\$	18.41%
22		over 1,500,000 gallons	\$	3.588	\$	18.42%
23	12 Inch Meter	0 gallons to 2,250,000 gallons	\$	2.984	\$	18.41%
24		over 2,250,000 gallons	\$	3.588	\$	18.42%
25						
26	Irrigation/Bulk	All gallons	\$	1.847	\$	18.42%
27						
28	Fire Hydrant Irrig./Construction	All gallons	\$	1.847	\$	18.42%
29						
30	Standpipe (Fire Hydrants)	All gallons	\$	2.984	\$	18.41%
31						
32	Fire Sprinklers	All gallons	\$	2.984	\$	18.41%
33						

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Meter and Service Line Charges

Exhibit  
Schedule H-3  
Page 4  
Witness: Bourassa

Line

No.

1

**Meter and Service Line Charges**

3

4

5

6

7

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33

	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	(a) Proposed Service Line Charge	Proposed Meter Install- ation Charge	(a) Total Proposed Charge
5/8 x 3/4 Inch	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4 Inch	385.00	215.00	600.00	385.00	215.00	600.00
1 Inch	435.00	255.00	690.00	435.00	255.00	690.00
1 1/2 Inch	470.00	465.00	935.00	470.00	465.00	935.00
2 Inch / Turbine	630.00	965.00	1,595.00	630.00	965.00	1,595.00
2 Inch / Compound	630.00	1,690.00	2,320.00	630.00	1,690.00	2,320.00
3 Inch / Turbine	805.00	1,470.00	2,275.00	805.00	1,470.00	2,275.00
3 Inch / Compound	845.00	2,265.00	3,110.00	845.00	2,265.00	3,110.00
4 Inch / Turbine	1,170.00	2,350.00	3,520.00	1,170.00	2,350.00	3,520.00
4 Inch / Compound	1,230.00	3,245.00	4,475.00	1,230.00	3,245.00	4,475.00
6 Inch / Turbine	1,730.00	4,545.00	6,275.00	1,730.00	4,545.00	6,275.00
6 Inch / Compound	1,770.00	6,280.00	8,050.00	1,770.00	6,280.00	8,050.00
8 Inch & Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

N/T = No Tariff

(a) As meters and service lines are now taxable income for income purposes, The Company shall collect income taxes on the meter and service line charges.  
Any tax collected will be refunded each year as the meter deposit is refunded.